

Current as of July 1, 1994

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

Informational Publication 100-1

RURAL ELECTRIFICATION ACT OF 1936
[7 U.S.C. 901-950b]

WITH AMENDMENTS AS APPROVED
THROUGH DEC. 17, 1993

CHRONOLOGY

- 1935. The Rural Electrification Administration (REA) was created by Executive Order 7037 of May 11 under authority of the Emergency Relief Appropriation Act of 1935, approved April 8, 1935 (49 Stat. 115).
- 1936. Statutory provision for the agency was made in the Rural Electrification Act of 1936 (Rural Electrification Act), approved May 20 (49 Stat. 1363; 7 U.S. Code, Chapter 31).
- 1938. Title IV of the Work Relief and Public Works Appropriation Act of 1938, approved June 21 ("Rural Electrification Act of 1938," 52 Stat. 818) authorized further borrowing from the Reconstruction Finance Corporation and added a requirement that borrowers from REA agree to use materials and supplies produced in the United States.
- 1939. REA became a part of the Department of Agriculture under Reorganization Plan 11, effective July 1.
- 1944. Title V of the Department of Agriculture Organic Act of 1944, approved September 21 (58 Stat. 739; 7 U.S.C. 903-905; 915) liberalized the terms of REA loans and removed the time limitation from its lending program.
- 1944. On December 23, the Rural Electrification Act was further amended to authorize REA to refinance certain rural electrification obligations owed to the Tennessee Valley Authority (58 Stat. 925; 7 U.S.C. 904).
- 1947. The Department of Agriculture Appropriation Act, 1948, approved July 30, (61 Stat. 546; 7 U.S.C. 903) further amended the Rural Electrification Act by transferring from the Reconstruction Finance Corporation to the Secretary of the Treasury the authority to make loans to REA.

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1948. On June 29, the Rural Electrification Act was again amended to authorize REA to refinance certain additional rural electrification obligations owed to the Tennessee Valley Authority (62 Stat. 1070; 7 U.S.C. 904).
1949. On October 28, the Rural Electrification Act was further amended to authorize REA to make loans for the purpose of furnishing and improving rural telephone service (63 Stat. 948; 7 U.S.C. 901-914; 922-924).
1955. On June 15, the Rural Electrification Act was amended by revising the formula governing the allotment of electrification loan funds (69 Stat. 131; 7 U.S.C. 903; 904).
1962. On October 23, the Rural Electrification Act was amended by broadening the definition of telephone service (76 Stat. 1140; 7 U.S.C. 924).
1971. On May 7, the Rural Electrification Act was amended to establish a Rural Telephone Account and the Rural Telephone Bank (85 Stat. 29; 7 U.S.C. 903; 922; 931; 932; 941-950b).
1972. On June 30, the Rural Electrification Act was amended to authorize the Secretary of the Treasury to purchase Rural Telephone Bank debentures (86 Stat. 390; 7 U.S.C. 947).
1973. On May 11, the Rural Electrification Act was amended to establish a revolving fund for insured and guaranteed loans under Title III (87 Stat. 65; 7 U.S.C. 903; 931-940; 945-948).
1975. On November 4, the Rural Electrification Act was amended to expressly authorize the assignment of REA guarantees to the extent provided in contract of guarantee, to clarify the incontestability of the Government guarantee, and to specifically require justification of budget estimates (89 Stat. 677; 7 U.S.C. 906; 936; 938).
1976. On April 21, the "Fiscal Year Adjustment Act" amended the Rural Electrification Act to reflect necessary changes in laws because of the October-September fiscal year. (90 Stat. 378; 7 U.S.C. 910; 946; 950).
1976. On October 20, the Rural Electrification Act was amended to correct unintended inequities in the interest rate criteria and to transfer the unobligated balance of the 1973 loan authorizations to the Rural Electrification and Telephone Revolving Fund. (90 Stat. 2701; 7 U.S.C. 931; 935).
1977. On August 4, the "Department of Energy Organization Act" added section 16 to title I, to require the Administrator, when making or guaranteeing generation or transmission loans, to consider general criteria published by the Secretary of Energy. (91 Stat. 608; 7 U.S.C. 916).
1981. On August 13, the "Omnibus Budget Reconciliation Act of 1981" amended the Rural Electrification Act (1) to establish a 5 percent interest rate, with certain exceptions, for loans from the revolving fund, and (2) to require the Federal Financing Bank to

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make a loan under an REA guarantee if requested by a borrower with such a guarantee. (95 Stat. 379; 7 U.S.C. 935-937).

1981. On December 22, the "Agriculture and Food Act of 1981" amended the Rural Electrification Act to extend for another 10 years the authorization for Federal stock purchases in the Rural Telephone Bank. (95 Stat. 1347; 7 U.S.C. 946).
1986. On October 21, the "Omnibus Budget Reconciliation Act of 1986" amended the Rural Electrification Act to authorize the prepayment of certain loans made by the Federal Financing Bank and guaranteed by the REA. The Act further provides for sale or prepayment of direct or insured loans by the borrower through September 30, 1987. (100 Stat. 1875; 7 U.S.C. 936a).
1986. On October 30, an act entitled "Joint Resolution making continuing appropriations for the fiscal year 1987, and for other purposes" amended the Rural Electrification Act to establish a privatization demonstration program to allow electric and telephone borrowers under the Rural Electrification Act to prepay with private capital all their loans guaranteed or otherwise made by and through the REA providing certain conditions are met. (100 Stat. 3341-333; 7 U.S.C. 940a) NOTE: Legislation which enacted this amendment provides that its provisions "shall apply only to the rural electrification program in the State of Alaska". (100 Stat. 3341-352).
1987. On December 22, the "Omnibus Budget Reconciliation Act of 1987" amended the Rural Electrification Act to authorize the prepayment of certain loans made by the Federal Financing Bank and guaranteed by the REA and amended the Rural Electrification Act to establish a cushion of credit payments program including a loan and grant initiative for rural economic development; permit use of funds by borrowers not in excess of 15 percent of their total utility plant; authorize the prepayment of Rural Telephone Bank loans during fiscal year 1988; and provide an interest rate reform for the Rural Telephone Bank. (101 Stat. 1330-20; 7 U.S.C. 940b; 940c; 946; 948).
1990. On November 5, 1990, the "Omnibus Budget Reconciliation Act of 1990" amended the Rural Electrification Act to authorize insured loan levels for fiscal years 1991 through 1995 and established a new 90 percent guarantee loan program. Title XIII of OBRA 1990, also known as the "Federal Credit Reform Act of 1990," superseded the revolving loan fund legislative provisions for insured and guaranteed loans which had been in effect since 1973. (104 Stat. 1388; 7 U.S.C. 940d).
1990. On November 28, the "Rural Economic Development Act of 1990" amended the Rural Electrification Act to establish an Assistant Administrator for Economic Development, establish a rural development technical assistance unit, expand the powers and duties of REA Administrator in the area of rural economic development, establish a Rural Business Incubator Fund for the purpose of making grants and reduced interest loans, to promote business incubator loans. It also provided for distance learning and medical link programs. (104 Stat. 3979; 7 U.S.C. 911a; 912; 917; 918; 924-928; 932; 935; 936; 936b; 939; 945; 946; 948; 950; 950aa; 950aa-1).
1991. On December 13, 1991, the "Food, Agriculture, Conservation, and Trade Act Amendments of 1991" made technical corrections to the Rural Electrification Act

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amendments resulting from the "Rural Economic Development Act of 1990." (105 Stat. 1881; 7 U.S.C. 911; 917; 950aa; 950aa-1).

1992. On October 21, 1992, the "Rural Electrification Administration Improvement Act of 1992" amended the Rural Electrification Act to authorize discounted prepayments by borrowers of direct or insured loans. (106 Stat. 2183; 7 U.S.C. 936b(a); 936b(b)).
1992. On October 28, 1992, the "Food, Agriculture, Conservation and Trade Act Amendments of 1990" was amended by the addition of a new section which established a special program for service areas applying for distance learning and medical link grants. (106 Stat. 4098; 7 U.S.C. 950aaa-4; 950aaa-5).
1993. On August 10, 1993, the "Omnibus Budget Reconciliation Act of 1993" amended the Rural Electrification Act by adding section 306C on refinancing and prepayment of FFB loans. (107 Stat. 327; 7 U.S.C. 936c).
1993. On November 1, 1993, the "Rural Electrification Loan Restructuring Act of 1993" (RELRA) significantly amended the electric and telephone loan programs to authorize electric insured loans at a tax exempt equivalent interest rate and telephone insured loans at a government cost-of-money interest rate and increased the interest rate on hardship loans from 2 percent to 5 percent. RELRA authorized loans for purposes of demand side management. RELRA also provided that REA borrowers are eligible for water and sewer loans as well as other rural development assistance programs authorized by the "Consolidated Farm and Rural Development Act" (7 U.S.C. 1921 et seq). (107 Stat. 1356; 7 U.S.C. 902, 904, 913, 918, 924(b), 935, 936c, 936d, 936e, 937, 939(a), 940d, 946, 948).
1993. On December 8, 1993, the "North American Free Trade Agreement Implementation Act" amended the "Buy American" provision of the Rural Electrification Act to include Mexico and Canada. (107 Stat. 2129; 7 U.S.C. 903 note.)
1993. On December 17, 1993, the Rural Electrification Act was amended to clarify the scope of the regulatory oversight to be exercised by the Rural Electrification Administration with respect to certain borrowers. This amendment allowed borrowers whose net worth exceeded 110 percent of the outstanding principal balance on all loans made or guaranteed by REA to be exempt from certain REA operational controls. (107 Stat. 2342; 7 U.S.C. 936e).

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**GUIDE TO PROVISIONS OF
RURAL ELECTRIFICATION ACT**

**PROVISIONS RELATING TO ORGANIZATION AND GENERAL
FUNCTIONS OF REA: TITLE I**

SEC. 1-establishes REA in the Department of Agriculture; directs that powers of REA be exercised by Administrator.

SEC. 2-authorizes REA Administrator to make rural electrification and telephone loans, and to investigate and publicize condition and progress of rural electrification and telephone service.

SEC. 3-provides for REA electrification and telephone loan funds; establishes State allotment formula for electrification loan funds (not applicable to telephone loan funds).

SEC. 6-authorizes appropriation of funds for administering electrification and telephone loan programs.

SEC. 7-relates to acquisition and disposition by REA Administrator of property securing loans; prohibits disposition of property acquired by borrowers with REA loan funds, unless REA Administrator approves, until loan is fully repaid.

SEC. 8-makes Rural Electrification Act applicable to certain loans and contracts entered into prior to effective date of the Act (May 20, 1936).

SEC. 9-requires administration of Rural Electrification Act and selection of employees on non-partisan, nonpolitical basis.

SEC. 10-requires annual report to Congress.

SEC. 11-authorizes Administrator to appoint officers and employees and to make certain administrative expenditures.

SEC. 11A-authorizes Administrator to appoint an Assistant Administrator for Economic Development and establish a technical assistance unit to provide advice to borrowers concerning community and economic development activities.

SEC. 12-empowers Administrator to extend payment of loans with certain limitations.

SEC. 13-defines the terms "rural area", "farm", "person" and "Territory".

SEC. 14-technical "saving clause".

SEC. 15-authorizes certain administrative expenditures.

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SEC. 18-removes consideration of borrowers' general funds level from loan making and advance of funds decision and provides for the use of consultants to facilitate timely action on applications in certain circumstances.

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**PROVISIONS RELATING TO RURAL ELECTRIFICATION LOANS
ONLY: TITLE I**

SEC. 4-authorizes Administrator to make loans for rural electrification; specifies eligible borrowers, preferences, purposes, terms and conditions, security and self-liquidation requirements.

SEC. 5-authorizes Administrator to make loans to finance wiring installations and electrical and plumbing appliances and equipment. (Sec. 3(a) prescribes a 5-year maximum maturity for such loans.)

SEC. 16-requires the Administrator when making or guaranteeing generation or transmission loans to consider general criteria published by the Secretary of Energy.

**PROVISIONS RELATING TO RURAL TELEPHONE LOANS ONLY:
TITLE II**

SEC. 201-authorizes Administrator to make loans for furnishing and improving rural telephone service; specifies eligible borrowers, terms and conditions, purposes, preferences generally, preferences during initial year of program, area coverage requirements, security and self-liquidation requirements; authorizes financing of nonrural facilities under certain conditions; authorizes limited refinancing of existing indebtedness; requires applicants to comply with State certification requirements, and, where such requirements are inapplicable, specifies the determination which the Administrator is required to make.

SEC. 202-recognizes jurisdiction of State regulatory bodies.

SEC. 203-defines the terms "telephone service" and "rural area".

SEC. 204-limits loan feasibility criteria.

SEC. 205-allows borrowers to invest in rural development projects, and defines "qualified telephone borrower."

SEC. 206-discusses general duties and prohibitions of Administrator and Governor.

SEC. 207-sets time limitations on loan application considerations.

**PROVISIONS RELATING TO RURAL ELECTRIFICATION AND TELEPHONE
REVOLVING FUND ONLY: TITLE III**

SEC. 301-establishes in the U.S. Treasury a "Rural Electrification and Telephone Revolving Fund" (fund) and specifies the existing and future assets to be included in the fund.

SEC. 302-sets forth the liabilities of the fund, outlines the exclusive purposes for which the assets of the fund are available and requires the maintenance of an electric account and a telephone account within the fund.

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SEC. 303-requires that moneys in the fund shall remain on deposit in the United States Treasury until required for disbursement.

SEC. 304-sets forth the financial transactions authorized by the fund, including borrowings from the Treasury and the sale of borrowers' notes or interests in them to the Treasury or the private money market.

SEC. 305-authorizes the Administrator to make insured electric loans at (1) a hardship interest rate of 5 percent or (2) a tax exempt equivalent rate, and insured telephone loans at (1) a hardship interest rate of 5 percent or (2) an interest rate equal to the U.S. Treasury cost of funds.

SEC. 306-authorizes the Administrator to guarantee loans made by other lending agencies at interest rates agreed on by the borrower and the lender, with or without a concurrent insured loan, and requires the Federal Financing Bank to make a loan under a REA guarantee when requested by a borrower with such a guarantee.

SEC. 306A-authorizes the prepayment of certain loans made by the Federal Financing Bank and guaranteed by the REA and requires the Administrator to establish eligibility criteria based on greatest need of benefits associated with prepayment to cooperative borrowers.

SEC. 306B-provides that REA insured loans may be prepaid at a discount under certain circumstances.

SEC. 306C-provides that FFB guaranteed loans may be refinanced or prepaid and limits the penalty which might otherwise be assessed.

SEC. 306D-provides the circumstances under which a default by a wholesale power borrower will not affect the eligibility for loans, loan guarantees, and lien accommodations of distribution borrowers that purchase power from said wholesale power borrower.

SEC. 306E-provides that certain borrowers who achieve certain financial benchmarks will be relieved of certain REA administrative or operational controls.

SEC. 307-authorizes the Administrator to request that a borrower obtain other financing, concurrently with an insured loan at the standard rate, under specified conditions.

SEC. 308-provides that any contract of insurance or guarantee made under Title III shall be supported by the full faith and credit of the United States.

SEC. 309-provides that loans made from or insured through the fund under Title III shall be for the same purposes and on the same terms and conditions as those provided for loans under Titles I and II of the Rural Electrification Act, except as otherwise provided in sections 303 through 308.

SEC. 310-authorizes the Administrator, at the request of the borrower, to refinance any loans made for rural electric and telephone facilities under the Consolidated Farm and Rural Development Act.

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SEC. 311-establishes a privatization demonstration program for electric and telephone REA borrowers with outstanding REA-guaranteed Federal Financing Bank (FFB) loans and provides an option to such borrowers to prepay all outstanding REA-guaranteed FFB loans, without a prepayment premium. (NOTE: Legislation which enacted this section provides that its provisions "shall apply only to the rural electrification program in the State of Alaska".)

SEC. 312-provides that a borrower may invest its own funds or make loans or guarantees, not in excess of 15 percent of its total utility plant.

SEC. 313-establishes a cushion of credit payments program.

SEC. 314-establishes authorization levels for rural electric and telephone insured loans for fiscal years 1991-1995 and authorizes new 90 percent guarantee loan program.

**PROVISIONS RELATING TO TELEPHONE BANK ONLY:
TITLE IV**

SEC. 401-establishes Rural Telephone Bank (telephone bank) as a body corporate and an instrumentality of the United States, to obtain supplemental funds from non-Federal sources and utilizes them in making loans, operating on self-sustaining basis to extent practicable.

SEC. 402-sets forth general powers of telephone bank.

SEC. 403-lists special provisions governing telephone bank as United States agency until conversion of ownership, control and operation.

SEC. 404-makes REA Administrator Governor of telephone bank until conversion of ownership, control and operation.

SEC. 405-provides for board of directors of telephone bank and sets forth procedures for its selection and selection of Chairperson of the Board.

SEC. 406-provides for capitalization of telephone bank and establishes classes of stock to be issued.

SEC. 407-authorizes and limits borrowing by telephone bank and describes status of debentures.

SEC. 408-authorizes lending by telephone bank and establishes restrictions on telephone bank loans.

SEC. 409-makes any receipts of telephone bank available for all its obligations and expenditures.

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SEC. 410-provides for conversion of ownership, control and operation of telephone bank when specified amount of Class A stock has been retired.

SEC. 411-sets forth rights of stockholders on liquidation or dissolution of telephone bank.

SEC. 412-prohibits a section 201 loan to a borrower having net worth in excess of 20% of assets in preceding year unless REA Administrator finds it cannot obtain the loan from the telephone bank or other reliable sources on reasonable terms.

**PROVISIONS RELATING TO RURAL ECONOMIC DEVELOPMENT ONLY:
TITLE V**

SEC. 11A-authorizes Administrator to appoint an Assistant Administrator for Economic Development and establish a technical assistance unit to provide advice to borrowers concerning community and economic development activities.

SEC. 501-authorizes REA to engage in certain rural economic development activities.

SEC. 502-establishes Rural Business Incubator fund, its uses, eligibility, and funding.

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**DEFERRED AMENDMENTS TO THE GOVERNMENT
CORPORATION CONTROL ACT**

STATEMENTS OF CONGRESSIONAL POLICY

Rural Telephone Loan Legislation, 1949
Rural Telephone Bank Legislation, 1971 and 1972
Rural Electrification and Telephone Revolving Fund Legislation, 1973
Rural Telecommunications Act of 1990

**USE OF FUNDS OUTSIDE THE UNITED
STATES OR ITS TERRITORIES**

PROVISIONS OF DISASTER RELIEF ACT AFFECTING REA

**PROVISIONS OF OMNIBUS BUDGET RECONCILIATION ACT
OF 1987 AFFECTING THE RURAL TELEPHONE BANK**

"BUY AMERICAN" PROVISION

DISTANCE LEARNING AND MEDICAL LINK PROGRAMS

SELECTED LEGISLATIVE REFERENCES

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RURAL ELECTRIFICATION ACT OF 1936

With Amendments as Approved Through Dec. 17, 1993

[U.S. Code, Title 7, Chap. 31]

AN ACT

To provide for rural electrification, and for other purposes.

TITLE I-RURAL ELECTRIFICATION

SEC. 1. RURAL ELECTRIFICATION ADMINISTRATION; ADMINISTRATOR; SHORT TITLE.-There is created and established in the Department of Agriculture an agency of the United States, to be known as the "Rural Electrification Administration", all of the powers of which shall be exercised by an Administrator, under the general direction and supervision of the Secretary of Agriculture, who shall be appointed by the President, by and with the advice and consent of the Senate, for a term of ten years. This chapter may be cited as the "Rural Electrification Act of 1936".

[May 20, 1936, ch. 432, Title I, §1, 49 Stat. 1363; 1939 Reorg. Plan No. II, §5, eff. July 1, 1939, 4 F.R. 2732, 53 Stat. 1434; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948; 7 U.S.C. 901.]

(NOTE: Provisions of this section which prescribed the basic annual compensation of the Administrator were omitted to conform to the provisions of the Federal Executive Salary Schedule. See section 2210 et. seq. of Title 5, Executive Departments and Government Officers and Employees.)

SEC. 2. LOANS BY ADMINISTRATOR; INVESTIGATIONS AND REPORTS.-(a) The Administrator is authorized and empowered to make loans in the several States and Territories of the United States for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving central station service, and for the purpose of furnishing and improving electric and telephone service in rural areas as provided in this Act, and for the purpose of assisting electric borrowers to implement demand side management, energy conservation programs, and on-grid and off-grid renewable energy systems; to make, or cause to be made, studies, investigations, and reports concerning the condition and progress of the electrification of and the furnishing of adequate telephone service in rural areas in the several States and Territories; and to publish and disseminate information with respect thereto.

(b) By January 1, 1994, the Administrator shall issue interim regulations to implement the authority contained in subsection (a) to make loans for the purpose of assisting electric borrowers to implement demand side management, energy conservation programs, and on-grid and off-grid renewable energy systems. If the regulations are not issued by January 1, 1994, the Administrator shall consider any demand side management, energy conservation, or renewable energy program, system, or activity that is approved by a State agency to be eligible for the loans.

[May 20, 1936, ch. 432, Title I, §2, 49 Stat. 1363; Oct. 28, 1949, ch. 776, §2, 3, 63 Stat. 948; Nov. 1, 1993, Public Law 103-129, §2(c)(1), 107 Stat. 1363; 7 U.S.C. 902.]

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SEC. 3. FUNDS OF ADMINISTRATOR.-(a) The Secretary of the Treasury is hereby authorized and directed to make loans to the Administrator, upon the request and approval of the Secretary of Agriculture, in such amounts in the aggregate for each fiscal year commencing with the fiscal year ending June 30, 1948, as the Congress may from time to time determine to be necessary, either without interest or at such rate of interest per annum, not in excess of the rate provided for in sections 4 and 5 of this Act, as the Secretary of the Treasury may determine, upon the security of the obligations of borrowers from the Administrator appointed pursuant to the provisions of this Act or from the Administrator of the Rural Electrification Administration established by Executive Order Numbered 7037. Interest rates on the unpaid balance of any loans made by the Reconstruction Finance Corporation to the Administrator prior to July 1, 1947, shall be adjusted to the interest rate, if any, established for loans made after June 30, 1947, in accordance with the foregoing provision: Provided, That such obligations incurred for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines, or systems and for the purpose of financing the improvement, expansion, construction, acquisition, and operation of facilities to render telephone service shall be fully amortized over a period not to exceed thirty-five years, and that the maturity of such obligations incurred for the purpose of financing the wiring of premises and the acquisition and installation of electrical and plumbing appliances and equipment shall not exceed twothirds of the assured life thereof and not more than five years. The Administrator is hereby authorized to make all such endorsements, to execute all such instruments, and to do all such acts and things as shall be necessary to effect the valid transfer and assignment to the Secretary of the Treasury of all such obligations, and to execute such trust instruments as shall be agreed upon by the Administrator and the Secretary of the Treasury providing for the holding in trust by the Administrator of all such obligations for the Secretary of the Treasury as security for loans to the Administrator heretofore made by the Reconstruction Finance Corporation or made or to be made by the Secretary of the Treasury. All rights, interests, obligations, and duties of the Reconstruction Finance Corporation arising out of loans made or authorized to be made to the Administrator are, as of the close of June 30, 1947, vested in the Secretary of the Treasury; the Reconstruction Finance Corporation is authorized and directed to receive all loans outstanding on that date, plus accrued unpaid interest, theretofore made to the Administrator under the provisions of this Act, and all notes and other evidences thereof and all obligations constituting the security therefor. The Secretary of the Treasury shall cancel notes of the Reconstruction Finance Corporation, and sums due and unpaid upon or in connection with such notes at the time of such cancellation, in an amount equal to the unpaid principal of the loans so transferred, plus accrued unpaid interest through June 30, 1947. Subsequent to June 30, 1947, the Reconstruction Finance Corporation shall make no further loans or advances to the Administrator; and the Secretary of the Treasury is hereby authorized and directed, in lieu of the Reconstruction Finance Corporation, to lend or advance to the Administrator, in accordance with the provisions of this subsection 3 (a), any unobligated or unadvanced balances of the sums which the Reconstruction Finance Corporation has theretofore been authorized and directed to lend to the Administrator. For the purpose of making loans or advances pursuant to this section, the Secretary of the Treasury is authorized to use as a public debt-transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such loans or advances to the Administrator. Repayments to the Secretary of the Treasury on such loans or advances shall be treated as a public-debt transaction of the United States.

(b) There are hereby authorized to be appropriated such sums as the Congress may from time to time determine to be necessary for the purposes of this Act as hereinafter provided.

(c) Twenty-five per centum of the annual sums herein made available or appropriated for loans for rural electrification pursuant to sections 4 and 5 of this title shall be allotted yearly

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by the Administrator for loans in the several States in the proportion which the number of their farms not then receiving central station electric service bears to the total number of farms of the United States not then receiving such service: Provided, That if any part of such sums are not loaned or obligated during the first six months of the fiscal year for which they are made available, such part shall thereafter be available for loans by the Administrator without allotment: Provided, however, That not more than 25 per centum of said sums may be employed in any one State or in all of the Territories. The Administrator shall within ninety days after the beginning of each fiscal year determine for each State and for the United States the number of farms not then receiving such service.

(d) The remaining 75 per centum of such annual sums shall be available for rural electrification loans in the several States and in the Territories, without allotment as herein above provided in such amounts for each State and Territory as, in the opinion of the Administrator, may be effectively employed for the purposes of this Act, and to carry out the provisions of section 7: Provided, however, That not more than 25 per centum of said unallotted annual sums may be employed in any one State, or in all of the Territories.

(e) If any part of the annual sums made available for the purposes of this Act are not loaned or obligated during the fiscal year for which they are made available, such unexpended or unobligated sums shall be available for loans by the Administrator in the following year or years without allotment: Provided, however, That not more than 25 per centum of said sums for rural electrification loans may be employed in any one State or in all of the Territories. [May 20, 1936, ch. 432, Title I, §3, 49 Stat. 1364; June 21, 1938, ch. 554, Title IV, §401, 52 Stat. 818; Sept. 21, 1944, ch. 412, Title V, §§501, 503, 504, 58 Stat. 739, 740; July 30, 1947, ch. 356, Title I, §1, 61 Stat. 546; Oct. 28, 1949, ch. 776, §§2, 4(a)-(d), 63 Stat. 948; June 15, 1955, ch. 139, §1, 69 Stat. 131; May 7, 1971, Public Law 92-12, §3(a), 85 Stat. 37; May 11, 1973, Public Law 93-32, §3, 87 Stat. 70; 7 U.S.C. 903.]

SEC. 4. LOANS BY ADMINISTRATOR FOR ELECTRICAL PLANTS AND TRANSMISSION LINES; PREFERENCES; CONSENT OF STATE AUTHORITIES.-The Administrator is authorized and empowered, from the sums herein before authorized, to make loans for rural electrification to persons, corporations, States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts and cooperative, nonprofit, or limited-dividend associations organized under the laws of any State or Territory of the United States, for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service and for the furnishing and improving of electric service to persons in rural areas, including by assisting electric borrowers to implement demand side management, energy conservation programs, and on-grid and off-grid renewable energy systems, and loans, from funds available under the provisions of sections 3(d) and 3(e) but without regard to the 25 per centum limitation therein contained, to cooperative associations and municipalities for the purpose of enabling said cooperative associations and municipalities to the extent that such indebtedness was incurred with respect to electric transmission and distribution lines or systems or portions thereof serving persons in rural areas, to discharge or refinance long-term debts owed by them to the Tennessee Valley Authority on account of loans made or credit extended under the terms of the Tennessee Valley Authority Act of 1933, as amended: Provided, That the Administrator, in making such loans, shall give preference to States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts, and cooperative nonprofit, or limited-dividend associations, the projects of which comply with the requirements of this Act. Such loans shall be on such terms and conditions relating to the expenditure of the moneys loaned and the security therefor as the Administrator shall determine and may be made payable in whole or in part out of the income: Provided further, That all such loans shall be

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self-liquidating within a period of not to exceed thirty-five years, and shall bear interest at the rate of 2 per centum per annum; interest rates on the unmatured and unpaid balance of any loans made pursuant to this section prior to September 21, 1944, shall be adjusted to 2 per centum per annum, and the maturity date of any such loans may be readjusted to occur at a date not beyond thirty-five years from the date of such loan: And provided further, That no loan for the construction, operation, or enlargement of any generating plant shall be made unless the consent of the State authority having jurisdiction in the premises is first obtained. Loans under this section and section 5 shall not be made unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed.

[May 20, 1936, ch. 432, Title I, §44, 49 Stat. 1365; Sept. 21, 1944, ch. 412, Title V, §§502(a), 503, 58 Stat. 739, Dec. 23, 1944, ch. 725, 58 Stat. 925, June 29, 1948, Ch. 703, 62 Stat. 1070; Oct. 28, 1949, ch. 776, §§2, 4(e), 63 Stat. 948; June 15, 1955, ch. 139, §2, 69 Stat. 132; Nov. 1, 1993, Public Law 103-129, §2(c)(2), 107 Stat. 1363; 7 U.S.C. 904.]

SEC. 5. LOANS FOR ELECTRICAL AND PLUMBING EQUIPMENT; PERSONS ELIGIBLE FOR LOANS.-The Administrator is authorized and empowered, from the sums hereinbefore authorized, to make loans for the purpose of financing the wiring of the premises of persons in rural areas and the acquisition and installation of electrical and plumbing appliances and equipment. Such loans may be made to any of the borrowers of funds loaned under the provisions of section 4, or to any person, firm, or corporation supplying or installing the said wiring, appliances or equipment. Such loans shall be for such terms, subject to such conditions, and so secured as reasonably to assure repayment thereof, and shall be at a rate of interest of 2 per centum per annum; interest rates on the unmatured and unpaid balance of any loans made pursuant to this section prior to September 21, 1944, shall be adjusted to 2 per centum per annum.

[May 20, 1936, ch. 432, Title I, §5, 49 Stat. 1365; Sept. 21, 1944, ch. 412, Title V, §502(b), 58 Stat. 739; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948; 7 U.S.C. 905.]

SEC. 6. AUTHORIZATION OF APPROPRIATIONS; TESTIMONY OF SECRETARY OF AGRICULTURE BEFORE CONGRESSIONAL COMMITTEES IN JUSTIFICATION OF BUDGET REQUESTS.-For the purpose of administering this Act and for the purpose of making the studies, investigations, publications, and reports herein provided for, there is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as shall be necessary. On or before February 15 of each calendar year beginning with calendar year 1976, or such other date as may be specified by the appropriate committee, the Secretary of Agriculture shall testify before the House Committee on Agriculture and the Senate Committee on Agriculture and Forestry and provide justification in detail of the amount requested in the budget to be appropriated for the next fiscal year for the purpose of administering this Act and for the purpose of making the studies, investigations, publications, and reports herein authorized.

[May 20, 1936, ch. 432, Title I, §6, 49 Stat. 1365; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948; Nov. 4, 1975, Public Law 94-124, §3, 89 Stat. 677; S. Res. 4, Feb. 4, 1977; 7 U.S.C. 906.]

SEC. 7. ACQUISITION OF PROPERTY PLEDGED FOR LOANS; DISPOSITION; SALE OF PLEDGED PROPERTY BY BORROWER.-The Administrator is authorized and empowered to bid for and purchase at any foreclosure or other sale, or otherwise to acquire, property pledged or mortgaged to secure any loan made pursuant to this Act; to pay the purchase price and any costs and expenses incurred in connection therewith from the sums authorized in section 3 of this Act; to accept title to any property so purchased or acquired in the name of the United States of America; to operate or lease such property for such period as

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may be deemed necessary or advisable to protect the investment therein, but not to exceed five years after the acquisition thereof, and to sell such property so purchased or acquired, upon such terms and for such consideration as the Administrator shall determine to be reasonable. No borrower of funds under section 4 or section 201 shall, without the approval of the Administrator, sell or dispose of its property, rights, or franchises, acquired under the provisions of this Act, until any loan obtained from the Rural Electrification Administration, including all interest and charges, shall have been repaid.

[May 20, 1936, ch. 432, Title I, §7, 49 Stat. 1365, 1366; Oct. 28, 1949, ch. 776, §§2, 4(f), 63 Stat. 948; 7 U.S.C. 907.]

SEC. 8. TRANSFER OF FUNCTIONS OF ADMINISTRATION CREATED BY EXECUTIVE ORDER.-The administration of loans and contracts entered into by the Rural Electrification Administration established by Executive Order Numbered 7037, dated May 11, 1935, may be vested by the President in the Administrator authorized to be appointed by this Act; and in such event the provisions of this Act shall apply to said loans and contracts to the extent that said provisions are not inconsistent therewith. The President may transfer to the Rural Electrification Administration created by this Act the jurisdiction and control of the records, property (including office equipment), and personnel used or employed in the exercise and performance of the functions of the Rural Electrification Administration established by such Executive Order.

[May 20, 1936, ch. 432, Title I, §8, 49 Stat. 1366; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948; 7 U.S.C. 908.]

SEC. 9. ADMINISTRATION ON NONPOLITICAL BASIS; DISMISSAL OF OFFICERS OR EMPLOYEES FOR VIOLATING PROVISIONS.-This Act shall be administered entirely on a nonpartisan basis, and in the appointment of officials, the selection of employees, and in the promotion of any such officials, or employees, no political test or qualification shall be permitted or given consideration, but all such appointments and promotions shall be given and made on the basis of merit and efficiency. If the Administrator herein provided for is found by the President of the United States to be guilty of a violation of this section, he shall be removed from office by the President, and any appointee or selection of officials or employees made by the Administrator who is found guilty of a violation of this Act shall be removed by the Administrator.

[May 20, 1936, ch. 432, Title I, §9, 49 Stat. 1366; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948; 7 U.S.C. 909.]

SEC. 10. ANNUAL REPORT.-The Administrator shall present annually to the Congress not later than the 20th day of April in each year a full report of his activities under this Act.

[May 20, 1936, ch. 432, Title I, §10, 49 Stat. 1366; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948; April 21, 1976, Public Law 94-273, §11(1), 90 Stat. 378; 7 U.S.C. 910.]

SEC. 11. ACCEPTANCE OF SERVICES OF FEDERAL OR STATE OFFICERS; APPLICATION OF CIVIL SERVICE LAWS; EXPENDITURES FOR SUPPLIES AND EQUIPMENT.-In order to carry out the provisions of this Act the Administrator may accept and utilize such voluntary and uncompensated services of Federal, State, and local officers and employees as are available, and he may without regard to the provisions of civil-service laws applicable to officers and employees of the United States appoint and fix the compensation of attorneys, engineers, and experts, and he may, subject to the civil-service laws, appoint such other officers and employees as he may find necessary and prescribe their duties. The Administrator is authorized, from sums appropriated pursuant to section 6, to make such expenditures (including expenditures for personal services; supplies and

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equipment; lawbooks and books of reference, directories and periodicals; travel expenses; rental at the seat of government and elsewhere; the purchase, operation, or maintenance of passenger-carrying vehicles; and printing and binding) as are appropriate and necessary to carry out the provisions of this Act.

[May 20, 1936, ch. 432, Title I, §11, 49 Stat. 1366; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948; 7 U.S.C. 911.]

SEC. 11A. ASSISTANT ADMINISTRATOR FOR ECONOMIC DEVELOPMENT.-

(a) **APPOINTMENT.**-The Administrator shall appoint an Assistant Administrator for Economic Development (in this Act referred to as the "Assistant Administrator") to carry out the programs of the Rural Electrification Administration concerning the involvement of rural electric and telephone systems in community and economic development.

(b) **APPOINTMENT FACTORS.**-In appointing the Assistant Administrator, the Administrator shall consider the degree to which candidates possess-

(1) knowledge of and experience in community and economic development programs and strategies;

(2) the ability to develop and manage the specific programs and responsibilities of this office, as described in this Act;

(3) the ability to work effectively with officials of Federal, State, and local governments, private, and other officials of development programs, as well as with borrowers of the Rural Electrification Administration and their associations; and

(4) other factors determined by the Administrator to be important in the successful execution of the responsibilities of the office of Assistant Administrator.

(c) **RESPONSIBILITIES AND COMPENSATION.**-The Assistant Administrator shall be-

(1) responsible, unless otherwise provided by law, for the administration of the programs of the Rural Electrification Administration not directly related to the providing of electric or telephone service; and

(2) compensated at a salary level that is not less than that of the Assistant Administrator for Electric and the Assistant Administrator for Telephone of the Rural Electrification Administration.

(d) **FUNDING.**-The Assistant Administrator shall use not less than 10 percent nor more than 20 percent of the salaries and expenses provided to the Administration during any fiscal year to carry out the responsibilities described in subsection (c)(1), and such amounts shall remain available until expended.

(e) **TECHNICAL ASSISTANCE UNIT.**-The Administrator shall establish a technical assistance unit to provide advice and guidance to borrowers concerning community and economic development activities permitted under this Act. From the amounts made available to the Assistant Administrator under subsection (d), not less than 2 percent of the salaries and expenses of the Rural Electrification Administration shall be made available to such technical assistance unit established under this subsection.

[Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle E, §2350, 104 Stat. 4037; Dec. 13, 1991, Public Law 102-237, Title VII, §703, 105 Stat. 1881; 7 U.S.C. 911a.]

SEC. 12. EXTENSION OF TIME FOR REPAYMENT OF LOANS.(a) The Administrator is authorized and empowered to extend the time of payment of interest or principal of any loans made by the Administrator pursuant to this Act: Provided, however, That with respect to any loan made under section 4 or section 201, the payment of interest or principal shall not be extended more than five years after such payment shall have become due, and with respect to any loan made under section 5, the payment of principal or interest shall not be extended more than two years after such payment shall have become due: And provided further, That

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the provisions of this section shall not apply to any obligations or the security therefor which may be held by the Reconstruction Finance Corporation under the provisions of section 3.

(b)(1) Subject to limitations established in appropriations Acts, the Administrator shall permit any borrower to defer the payment of principal and interest on any insured or direct loan made under this Act under circumstances described in this subsection, notwithstanding any limitation contained in subsection (a), except that such deferment shall not be permitted based on the determination of the Administrator of the financial hardship of the borrower.

(2) (A) In the case of deferments made to enable the borrower to provide financing to local businesses, the deferment shall be repaid in equal installments, without the accrual of interest, over the 60-month period beginning on the date of the deferment, and the total amount of such payments shall be equal to the amount of the payment deferred.

(B) In the case of deferments made to enable the borrower to provide community development assistance, technical assistance to businesses, and for other community, business, or economic development projects not included under subparagraph (A), the deferment shall be repaid in equal installments, without the accrual of interest, over the 120-month period beginning on the date of the deferment, and the total amount of such payments shall be equal to the amount of the payment deferred.

(3) (A) A borrower may defer its debt service payments only in an amount equal to an investment made by such borrower as described in paragraph (2).

(B) The amount of the deferment shall not exceed 50 percent of the total cost of a community or economic development project for which a deferment is provided under this subsection.

(C) The total amount of deferments under this subsection during each of the fiscal years 1990 through 1993 shall not exceed 3 percent of the total payments due during such fiscal year from all borrowers on direct and insured loans made under this Act and shall not exceed 5 percent of such total payments due in each subsequent fiscal year.

(D) At the time of a deferment, the borrower shall make a payment to a cushion of credit account established and maintained pursuant to section 313 in an amount equal to the amount of the payment deferred. The balance of such account shall not be reduced by the borrower below the level of the unpaid balance of the payment deferred. Subject to limitations established in annual appropriations Acts, such cushion of credit amounts and any other cushion of credit and advance payments of any borrower shall be included in the interest differential calculation under section 313(b) (2) (A).

(4) The Administrator shall undertake all reasonable efforts to permit the full amount of deferments authorized by this subsection during each fiscal year.

[May 20, 1936, ch. 432, Title I, §12, 49 Stat. 1366; Oct. 28, 1949, ch. 776, §§2, 4(f), 63 Stat. 948; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle E, §2344, 104 Stat. 4028; 7 U.S.C. 912.]

SEC. 13. DEFINITIONS.-As used in this Act the term "rural area", except as provided in section 203(b), shall be deemed to mean any area of the United States not included within the boundaries of any urban area, as defined by the Bureau of the Census, and such term shall be deemed to include both the farm and nonfarm population thereof; the term "farm" shall be deemed to mean a farm as defined in the publications of the Bureau of the Census; the term "person" shall be deemed to mean any natural person, firm, corporation, or association; the term Territory shall be deemed to include any insular possession of the United States.

[May 20, 1936, ch. 432, Title I, §13, 49 Stat. 1367; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948; Nov. 1, 1993, Public Law 103-129, §2(c)(3), 107 Stat. 1363; 7 U.S.C. 913.]

SEC. 14. SEPARABILITY OF PROVISIONS.-If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act

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and the application of such provision to other persons or circumstances shall not be affected thereby.

[May 20, 1936, ch. 432, Title I, §14, 49 Stat. 1367; Oct. 28, 1949, ch. 776, §2, 63 Stat. 948, 7 U.S.C. 914.]

SEC. 15. PURCHASE OF FINANCIAL AND CREDIT REPORTS.The Rural Electrification Administration is authorized to purchase such financial and credit reports as may be necessary to carry out its authorized work:

Provided, That purchases under this authority shall not be made unless provision is made therefor in the applicable appropriation and the cost thereof is not in excess of limitations prescribed therein.

[Sept. 21, 1944, ch. 412, Title V, §505, 58 Stat. 740; 7 U.S.C. 915.]

SEC. 16. CRITERIA FOR LOANS.-In order to insure coordination of electric generation and transmission financing under this Act with the national energy policy, the Administrator in making or guaranteeing loans for the construction, operations, or enlargement of generating plants or electric transmission lines or systems, shall consider such general criteria consistent with the provisions of this Act as may be published by the Secretary of Energy.

[Aug. 4, 1977, Public Law 95-91, Title VII, §709(f), 91 Stat. 608; 7 U.S.C. 916.]

SEC. 17. [Sec. 17 was repealed December 13, 1991, by the "Food, Agriculture, Conservation, and Trade Act Amendments of 1991."]

SEC. 18. GENERAL PROHIBITIONS.-(a) **NO CONSIDERATION OF BORROWER'S LEVEL OF GENERAL FUNDS.**--The Administrator and the Governor of the telephone bank shall not deny or reduce any loan or loan advance under this Act based on a borrower's level of general funds.

(b) **LOAN ORIGINATION FEES.**--The Administrator and the Governor of the telephone bank may not charge any fee or charge not expressly provided in this Act in connection with any loan made or guaranteed under this Act.

(c) **CONSULTANTS.**--

(1) **IN GENERAL.**--To facilitate timely action on applications by borrowers for financial assistance under this Act and for approvals required of the Rural Electrification Administration pursuant to the terms of outstanding loan or security instruments or otherwise, the Administrator may use consultants funded by the borrower, paid for out of the general funds of the borrower, for financial, legal, engineering, and other technical advice and services in connection with the review of the application by the Rural Electrification Administration.

(2) **CONFLICTS OF INTEREST.**--The Administrator shall establish procedures for the selection and the provision of technical services by consultants to ensure that the consultants have no financial or other conflicts of interest in the outcome of the application of the borrower.

(3) **PAYMENT OF COSTS.**--The Administrator may not, without the consent of the borrower, require, as a condition of processing an application for approval, that the borrower agree to pay the costs, fees, and expenses of consultants hired to provide technical or advisory services to the Administrator.

(4) **CONTRACTS, GRANTS, AND AGREEMENTS.**--The Administrator may enter into such contracts, grants, or cooperative agreements as are necessary to carry out this section.

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(5) USE OF CONSULTANTS.--Nothing in this subsection shall limit the authority of the Administrator to retain the services of consultants from funds made available to the Administrator or otherwise.

[Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 1 §2353, 104 Stat. 4039; Nov. 1, 1993, Public Law 103-129, §2(c)(4), 107 Stat. 1364; 7 U.S.C. 918.]

TITLE II-RURAL TELEPHONE SERVICE

SEC. 201. LOANS FOR RURAL TELEPHONE SERVICE.-From such sums as are from time to time made available by the Congress to the Administrator for such purpose, pursuant to section 3 of this Act, the Administrator is authorized and empowered to make loans to persons now providing or who may hereafter provide telephone service in rural areas, to public bodies now providing telephone service in rural areas and to cooperative, nonprofit, limited dividend, or mutual associations. Except as otherwise provided by this title, such loans shall be made under the same terms and conditions as are provided in section 4 of this Act, for the purpose of financing the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities or systems to furnish and improve telephone service in rural areas: Provided, however, That the Administrator, in making such loans, shall give preference to persons providing telephone service in rural areas, to public bodies now providing telephone service in rural areas and to cooperative, nonprofit, limited dividend, or mutual associations: And, That for a period of one year from and after the effective date of this title applications for loans received by the Administrator from persons who on the effective date of this title are engaged in the operation of existing telephone service in rural areas shall be considered and acted upon before action is taken upon any application received from any other person for any loan to finance the furnishing or improvement of telephone service to substantially the same subscribers. The Administrator in making such loans shall, insofar as possible, obtain assurance that the telephone service to be furnished or improved thereby will be made available to the widest practical number of rural users. When it is determined by the Administrator to be necessary in order to furnish or improve telephone service in rural areas, such loans may be made for the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities, or systems without regard to their geographical location. The Administrator is further authorized and empowered to make loans for the purpose of refinancing outstanding indebtedness of persons furnishing telephone service in rural areas: Provided, That such refinancing shall be determined by the Administrator to be necessary in order to furnish and improve telephone service in rural areas: And provided further, That such refinancing shall constitute not more than 40 per centum of any loan made under this title. Loans under this section shall not be made unless the Administrator finds and certifies that in his judgement the security therefore is reasonably adequate and such loan will be repaid within the time agreed, nor shall such loan be made in any State which now has or may hereafter have a State regulatory body having authority to regulate telephone service and to require certificates of convenience and necessity to the applicant unless such certificate from such agency is first obtained. In a State in which there is no such agency or regulatory body legally authorized to issue such certificates to the applicant, no loan shall be made under this section unless the Administrator shall determine (and set forth his reasons therefore in writing) that no duplication of lines, facilities, or systems, providing reasonably adequate services will result therefrom. [Oct. 28, 1949, ch. 776, §5, 63 Stat. 948; May 7, 1971, Public Law 92-12, §3(b), 85 Stat. 37; 7 U.S.C. 922.]

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SEC. 202. STATE REGULATION OF TELEPHONE SERVICE. Nothing contained in this Act shall be construed to deprive any State commission, board, or other agency of jurisdiction, under any State law, now or hereafter effective, to regulate telephone service which is not subject to regulation by the Federal Communications Commission, under the Communications Act of 1934, including the rates for such service.
[Oct. 28, 1949, ch. 776, §5, 63 Stat. 948; 7 U.S.C. 923.]

SEC. 203. DEFINITION OF TELEPHONE SERVICE AND RURAL AREA.-(a) As used in this title, the term "telephone service" shall be deemed to mean any communication service for the transmission or reception of voice, data, sounds, signals, pictures, writing, or signs of all kinds by wire, fiber, radio, light, or other visual or electromagnetic means, and shall include all telephone lines, facilities, or systems used in the rendition of such service; but shall not be deemed to mean message telegram service or community antenna television system services or facilities other than those intended exclusively for educational purposes, or radio broadcasting services or facilities within the meaning of section 3(o) of the Communications Act of 1934, as amended.

(b) As used in this title, the term "rural area" shall be deemed to mean any area of the United States not included within the boundaries of any incorporated or unincorporated city, village, or borough having a population in excess of 5000 inhabitants.
[Oct. 28, 1949, ch. 776, §5, 63 Stat. 948; Oct. 23, 1962, Public Law 87-862, 76 Stat. 1140; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 2, §2354, 104 Stat. 4039; Nov. 1, 1993, Public Law 103-129, §2(c)(5), 107 Stat. 1364; 7 U.S.C. 924.]

SEC. 204. LOAN FEASIBILITY.-The Administrator and the Governor of the telephone bank may not, as a condition of making a telephone loan to an applicant therefor, require the applicant to-

- (1) increase the rates charged to the applicant's customers or subscribers; or
- (2) increase the applicant's ratio of-
 - (A) net income or margins before interest; to
 - (B) the interest requirements on all of the applicant's outstanding and proposed

loans.

[Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 2, §2355, 104 Stat. 4039; 7 U.S.C. 925.]

SEC. 205. CERTAIN RURAL DEVELOPMENT INVESTMENTS BY QUALIFIED TELEPHONE BORROWERS NOT TREATED AS DIVIDENDS OR DISTRIBUTIONS.-

(a) IN GENERAL.-The Administrator and the Governor of the telephone bank shall not-

(1) treat any amount invested by any qualified telephone borrower for any purpose described in section 607(c) (2) of the Rural Development Act of 1972 (including any investment in, or extension of credit, guarantee, or advance made to, an affiliated company of the borrower, that is used by such company for such a purpose) as a dividend or distribution of capital to the extent that, immediately after such investment, the aggregate of such investments does not exceed 1/3 of the net worth of the borrower; or

(2) require a qualified telephone borrower to obtain the approval of the Administrator or the Governor of the telephone bank in order to make an investment described in paragraph (1).

(b) QUALIFIED TELEPHONE BORROWER DEFINED.-As used in subsection (a), the term "qualified telephone borrower" means a person-

- (1) to whom a telephone loan has been made or guaranteed under this Act; and
- (2) whose net worth is at least 20 percent of the total assets of such person.

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[Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 2, §2356, 104 Stat. 4039; 7 U.S.C. 926.]

SEC. 206. GENERAL DUTIES AND PROHIBITIONS.-

(a) **DUTIES.**-The Administrator and the Governor of the telephone bank shall-

(1) notwithstanding section 553(a) (2) of title 5, United States Code, cause to be published in the Federal Register, in accordance with subsections (b) through (e) of section 553 of such title, all rules, regulations, bulletins, and other written policy standards governing the operations of the telephone loan and loan guarantee programs administered under this Act other than those relating to agency management and personnel;

(2) in evaluating the feasibility of a telephone loan to be made to a borrower for telephone services, use-

(A) with respect to items for which the regulatory authority with jurisdiction over the provision of such services has approved the depreciation rates used by the borrower, such approved rates; and

(B) with respect to other items, the average of the depreciation rates used by borrowers of telephone loans made under this Act;

(3) annually determine and publish the average described in paragraph (2) (B); and

(4) make loans for all purpose for which telephone loans are authorized under section 201 or 408, to the extent of qualifying applications therefor.

(b) **PROHIBITIONS.**-The Administrator and the Governor of the telephone bank shall not-

(1) rescind an insured telephone loan, or a Rural Telephone Bank loan, made under this Act without the consent of the borrower, unless all of the purposes for which telephone loans have been made to the borrower under this Act have been accomplished with funds provided under this Act;

(2) regulate the order or sequence of advances of funds under telephone loans made under this Act to any borrower who has received any combination of telephone loans from the Rural Electrification Administration, the Rural Telephone Bank, or the Federal Financing Bank; or

(3) deny a loan or advance to, or take any other adverse action against, an applicant for, or a borrower of, a telephone loan under this Act for any reason that is not based on a rule, regulation, bulletin, or other written policy standard that has not been published pursuant to section 553 of title 5, United States Code.

[Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 2, §2357, 104 Stat. 4040; 7 U.S.C. 927.]

SEC. 207. PROMPT PROCESSING OF TELEPHONE LOANS.-Within ten days after the end of the second and fourth calendar quarters of each year, the Administrator shall submit to the Committee on Agriculture and the Committee on Appropriations of the House of Representatives, and to the Committee on Agriculture, Nutrition, and Forestry and the Committee on Appropriations of the Senate, a report-

(1) identifying each completed application for a telephone loan under section 305, a guarantee of a telephone loan under section 306, or a loan under section 408, that has not been finally acted upon within ninety days after the date the completed application is submitted; and

(2) stating the reasons for the failure to finally act upon the completed application within such ninety-day period.

[Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 2, §2358, 104 Stat. 4041; 7 U.S.C. 928.]

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TITLE III-RURAL ELECTRIC AND TELEPHONE DIRECT LOAN PROGRAMS

SEC. 301. RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND.-(a) There is hereby established in the Treasury of the United States a fund, to be known as the Rural Electrification and Telephone Revolving Fund (hereinafter referred to as the "fund"), consisting of:

(1) all notes, bonds, obligations, liens, mortgages, and property delivered or assigned to the Administrator pursuant to loans heretofore or hereafter made under sections 4, 5, and 201 of this Act and under this title, as of the effective date of this title, as revised herein, and all proceeds from the sales hereunder of such notes, bonds, obligations, liens, title, as of the effective date of this title, as revised herein, and all proceeds from the sales hereunder of such notes, bonds, obligations, liens, mortgages, and property, which shall be transferred to and be assets of the fund;

(2) undisbursed balances of electric and telephone loans made under sections 4, 5, and 201, which as of the effective date of this title, as revised herein, shall be transferred to and be assets of the fund;

(3) notwithstanding section 3(a) of title 1, all collections of principal and interest received on and after July 1, 1972, on notes, bonds, judgments, or other obligations made or held under titles I and II of this Act and under this title, except for net collection proceeds previously appropriated for the purchase of class A stock in the Rural Telephone Bank, which shall be paid into and be assets of the fund;

(4) all appropriations for interest subsidies and losses required under this title which may hereafter be made by the Congress and the unobligated balances of any funds made available for loans under the item "Rural Electrification Administration" in the Department of Agriculture and Agriculture-Environmental and Consumer Protection Appropriations Acts;

(5) moneys borrowed from the Secretary of the Treasury pursuant to section 304(a); and

(6) shares of the capital stock of the Rural Telephone Bank purchased by the United States pursuant to section 406(a) of this Act and moneys received from said bank upon retirement of said shares of stock in accordance with the provisions of title IV of this Act, which said shares and moneys shall be assets of the fund.

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 29; May 11, 1973, Public Law 93-32, §2, 87 Stat. 66; Oct. 20, 1976, Public Law 94-570, §2, 90 Stat. 2701; 7 U.S.C. 931.]

SEC. 302. LIABILITIES AND USES OF RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND.-(a) The notes of the Administrator to the Secretary of the Treasury to obtain funds for loans under sections 4, 5, and 201 of this Act, and all other liabilities against the appropriations or assets in the fund in connection with electrification and telephone loan operations shall be liabilities of the fund, and all other obligations against such appropriations or assets in the fund arising out of electrification and telephone loan operations shall be obligations of the fund.

(b) The assets of the fund shall be available only for the following purposes:

(1) loans which could be insured under this title, and for advances in connection with such loans and loans previously made, as of the effective date of this title, as revised herein, under sections 4, 5, and 201 of this Act;

(2) payment of principal when due (without interest) on outstanding loans to the Administrator from the Secretary of the Treasury for electrification and telephone purposes pursuant to section 3(a) of this Act and payment of principal and interest when due on loans to the Administrator from the Secretary of the Treasury pursuant to section 304(a) of this title;

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(3) payments of amounts to which the holder of notes is entitled on insured loans: Provided, That payments other than final payments need not be remitted to the holder until due or until the next agreed annual, semiannual, or quarterly remittance date;

(4) payment to the holder of insured notes of any defaulted installment or, upon assignment of the note to the Administrator at his request, the entire balance due on the note;

(5) purchase of notes in accordance with contracts of insurance entered into by the Administrator;

(6) payment in compliance with contracts of guarantee;

(7) payment of taxes, insurance, prior liens, expenses necessary to make fiscal adjustments in connection with the application, and transmittal of collections or necessary to obtain credit reports on applicants or borrowers, expenses for necessary services, including construction inspections, commercial appraisals, loan servicing, consulting business advisory or other commercial and technical services, and other program services, and other expenses and advances authorized in section 7 of this Act in connection with insured loans. Such items may be paid in connection with guaranteed loans after or in connection with the acquisition of such loans or security thereof after default, to the extent determined to be necessary to protect the interest of the Government, or in connection with any other activity authorized in this Act;

(8) payment of the purchase price and any costs and expenses incurred in connection with the purchase, acquisition, or operation of property pursuant to section 7 of this Act.

(c) (1) The Administrator shall maintain two separate accounts within the fund, which shall be known as the electric account and the telephone account, respectively.

(2) (A) The Administrator shall account for the assets, liabilities, income, expenses, and equity of the fund attributable to electrification loan operations in the electric account.

(B) The Administrator shall account for the assets, liabilities, income, expenses, and equity of the fund attributable to telephone loan operations in the telephone account.

(3) (A) The assets accounted for in the electric account shall be available solely for electrification loan operations under this Act.

(B) The assets accounted for in the telephone account shall be available solely for telephone loan operations under this Act (other than under title IV).

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 30; May 11, 1973, Public Law 93-32, §2, 87 Stat. 66; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 3, §2359, 104 Stat. 4041; 7 U.S.C. 932.]

SEC. 303. MONEYS IN RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND.-Moneys in the fund shall remain on deposit in the Treasury of the United States until disbursed.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 67; 7 U.S.C. 933.]

SEC. 304. AUTHORIZED FINANCIAL TRANSACTIONS; INTERIM NOTES; PURCHASE OF OBLIGATIONS FOR RESALE; SALE OF NOTES AND CERTIFICATES; LIENS.-(a) The Administrator is authorized to make and issue interim notes to the Secretary of the Treasury for the purpose of obtaining funds necessary for discharging obligations of the fund and for making loans, advances and authorized expenditures out of the fund. Such notes shall be in such form and denominations and have such maturities and be subject to such terms and conditions as may be agreed upon by the Administrator and the Secretary of the Treasury. Such notes shall bear interest at a rate fixed by the Secretary of the Treasury, taking into consideration the current average market yield of outstanding marketable obligations of the United States having maturities comparable to the notes issued by the Administrator under this section. The Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which such securities may be issued

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under such Act, as amended, are extended to include the purchase of notes issued by the Administrator. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes shall be treated as public debt transactions of the United States: Provided, however, That such interim notes to the Secretary of the Treasury shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

(b) The Secretary of the Treasury is authorized and directed to purchase for resale obligations insured through the fund when offered by the Administrator. Such resales shall be upon such terms and conditions as the Secretary of the Treasury shall determine. Purchases and resales by the Secretary of the Treasury hereunder shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

(c) The Administrator may, on an insured basis or otherwise, sell and assign any notes in the fund or sell certificates of beneficial ownership therein to the Secretary of the Treasury or in the private market. Any sale by the Administrator of notes individually or in blocks shall be treated as a sale of assets for the purposes of the Budget and Accounting Act, 1921, notwithstanding the fact that the Administrator, under an agreement with the purchaser or purchasers, holds the debt instruments evidencing the loans and holds or reinvests payments thereon as trustee and custodian for the purchaser or purchasers of the individual note or of the certificate of beneficial ownership in a number of such notes. Security instruments taken by the Administrator in connection with any notes in the funds may constitute liens running to the United States notwithstanding the fact that such notes may be thereafter held by purchasers thereof.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 67; 7 U.S.C. 934.]

SEC. 305 INSURED LOANS; INTEREST RATES AND LENDING LEVELS.

(a) IN GENERAL.--The Administrator is authorized to make insured loans under this title and at the interest rates hereinafter provided to the full extent of the assets available in the fund, subject only to limitations as to amounts authorized for loans and advances as may be from time to time imposed by the Congress of the United States for loans to be made in any one year, which amounts shall remain available until expended: Provided, That the Congress in the annual appropriation Act may also authorize the transfer of any excess cash in the fund for deposit into the Treasury as miscellaneous receipts: And provided further, That any such loans and advances shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

(b) INSURED LOANS.--Loans made under this section shall be insured by the Administrator when purchased by a lender. As used in this Act, an insured loan is one which is made, held, and serviced by the Administrator, and sold and insured by the Administrator hereunder; such loans shall be sold and insured by the Administrator without undue delay.

(c) INSURED ELECTRIC LOANS.--

(1) HARDSHIP LOANS.--

(A) IN GENERAL.--The Administrator shall make insured electric loans, to the extent of qualifying applications for the loans, at an interest rate of 5 percent per year to any applicant for a loan who meets each of the following requirements:

(i) The average revenue per kilowatt-hour sold by the applicant is not less than 120 percent of the average revenue per kilowatt-hour sold by all utilities in the State in which the applicant provides service.

(ii) The average residential revenue per kilowatt-hour sold by the applicant is not less than 120 percent of the average residential revenue per kilowatt-hour sold by all utilities in the State in which the applicant provides service.

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(iii) The average per capita income of the residents receiving electric service from the applicant is less than the average per capita income of the residents of the State in which the applicant provides service, or the median household income of the households receiving electric service from the applicant is less than the median household income of the households in the State.

(B) SEVERE HARDSHIP LOANS.--In addition to hardship loans that are made under subparagraph (A), the Administrator may make an insured electric loan at an interest rate of 5 percent per year to an applicant for a loan if, in the sole discretion of the Administrator, the applicant has experienced a severe hardship.

(C) LIMITATION.--Except as provided in subparagraph (D), the Administrator may not make a loan under this paragraph to an applicant for the purpose of furnishing or improving electric service to a consumer located in an urban area (as defined by the Bureau of the Census) if the average number of consumers per mile of line of the total electric system of the applicant exceeds 17.

(D) EXTREMELY HIGH RATES.--In addition to hardship loans that are made under subparagraphs (A) and (B), the Administrator shall make insured electric loans, to the extent of qualifying applications for the loans, at an interest rate of 5 percent per year to any applicant for a loan whose residential revenue exceeds 15.0 cents per kilowatt-hour sold. A qualifying application from such an applicant for the purpose of furnishing or improving electric service to a consumer located outside of an urbanized area shall not be subject to the conditions or limitation of subparagraph (A) or (C).

(2) MUNICIPAL RATE LOANS.--

(A) IN GENERAL.--The Administrator shall make insured electric loans, to the extent of qualifying applications for the loans, at the interest rate described in subparagraph (B) for the term or terms selected by the applicant pursuant to subparagraph (C).

(B) INTEREST RATE.--

(i) IN GENERAL.--Subject to clause (ii), the interest rate described in this subparagraph on a loan to a qualifying applicant shall be--

(I) the interest rate determined by the Administrator to be equal to the current market yield on outstanding municipal obligations with remaining periods to maturity similar to the term selected by the applicant pursuant to subparagraph (C), but not greater than the rate determined under section 307(a)(3)(A) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1927(a)(3)(A)) that is based on the current market yield on outstanding municipal obligations; plus

(II) if the applicant for the loan makes an election pursuant to subparagraph (D) to include in the loan agreement the right of the applicant to prepay the loan, a rate equal to the amount by which--

(aa) the interest rate on commercial loans for a similar period that afford the borrower such a right; exceeds

(bb) the interest rate on commercial loans for the period that do not afford the borrower such a right.

(ii) MAXIMUM RATE.--The interest rate described in this subparagraph on a loan to an applicant for the loan shall not exceed 7 percent if--

(I) the average number of consumers per mile of line of the total electric system of the applicant is less than 5.50; or

(II)(aa) the average revenue per kilowatt-hour sold by the applicant is more than the average revenue per kilowatt-hour sold by all utilities in the State in which the applicant provides service; and

(bb) the average per capita income of the residents receiving electric service from the applicant is less than the average per capita income of the residents of the State in which the applicant provides service, or the median household income of the

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households receiving electric service from the applicant is less than the median household income of the households in the State.

(iii) EXCEPTION.--Clause (ii) shall not apply to a loan to be made to an applicant for the purpose of furnishing or improving electric service to consumers located in an urban area (as defined by the Bureau of the Census) if the average number of consumers per mile of line of the total electric system of the applicant exceeds 17.

(C) LOAN TERM.--

(i) IN GENERAL.--Subject to clause (ii), the applicant for a loan under this paragraph may select the term for which an interest rate shall be determined pursuant to subparagraph (B), and, at the end of the term (and any succeeding term selected by the applicant under this subparagraph), may renew the loan for another term selected by the applicant.

(ii) MAXIMUM TERM.--

(I) APPLICANT.--The applicant may not select a term that ends more than 35 years after the beginning of the first term the applicant selects under clause (i).

(II) ADMINISTRATOR.--The Administrator may prohibit an applicant from selecting a term that would result in the total term of the loan being greater than the expected useful life of the assets being financed.

(D) CALL PROVISION.--The Administrator shall offer any applicant for a loan under this paragraph the option to include in the loan agreement the right of the applicant to prepay the loan on terms consistent with similar provisions of commercial loans.

(3) OTHER SOURCE OF CREDIT NOT REQUIRED IN CERTAIN CASES.--The Administrator may not require any applicant for a loan made under this subsection who is eligible for a loan under paragraph (1) to obtain a loan from another source as a condition of approving the application for the loan or advancing any amount under the loan.

(d) INSURED TELEPHONE LOANS.--

(1) HARDSHIP LOANS.--

(A) IN GENERAL.--The Administrator shall make insured telephone loans, to the extent of qualifying applications for the loans, at an interest rate of 5 percent per year, to any applicant who meets each of the following requirements:

(i) The average number of subscribers per mile of line in the service area of the applicant is not more than 4.

(ii) The applicant is capable of producing net income or margins before interest of not less than 100 percent (but not more than 300 percent) of the interest requirements on all of the outstanding and proposed loans of the applicant.

(iii) The Administrator has approved a telecommunications modernization plan for the State under paragraph (3) and, if the plan was developed by telephone borrowers under this title, the applicant is a participant in the plan.

(iv) The average number of subscribers per mile of line in the area included in the proposed loan is not more than 17.

(B) AUTHORITY TO WAIVE TIER REQUIREMENT.--The Administrator may waive the requirement of subparagraph (A)(ii) in any case in which the Administrator determines (and sets forth the reasons for the waiver in writing) that the requirement would prevent emergency restoration of the telephone system of the applicant or result in severe hardship to the applicant.

(C) EFFECT OF LACK OF FUNDS.--On request of any applicant who is eligible for a loan under this paragraph for which funds are not available, the applicant shall be considered to have applied for a loan under title IV.

(2) COST-OF-MONEY LOANS.--

(A) IN GENERAL.--The Administrator may make insured telephone loans for the acquisition, purchase, and installation of telephone lines, systems, and facilities (other than buildings used primarily for administrative purposes, vehicles not used primarily in

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construction, and customer premise equipment) related to the furnishing, improvement, or extension of rural telecommunications service, at an interest rate equal to the then current cost of money to the Government of the United States for loans of similar maturity, but not more than 7 percent per year, to any applicant for a loan who meets the following requirements:

(i) The average number of subscribers per mile of line in the service area of the applicant is not more than 15, or the applicant is capable of producing net income or margins before interest of not less than 100 percent (but not more than 500 percent) of the interest requirements on all of the outstanding and proposed loans of the applicant.

(ii) The Administrator has approved a telecommunications modernization plan for the State under paragraph (3) and, if the plan was developed by telephone borrowers under this title, the applicant is a participant in the plan.

(B) CONCURRENT LOAN AUTHORITY.--On request of any applicant for a loan under this paragraph during any fiscal year, the Administrator shall--

(i) consider the application to be for a loan under this paragraph and a loan under section 408; and

(ii) if the applicant is eligible for a loan, make a loan to the applicant under this paragraph in an amount equal to the amount that bears the same ratio to the total amount of loans for which the applicant is eligible under this paragraph and under section 408, as the amount made available for loans under this paragraph for the fiscal year bears to the total amount made available for loans under this paragraph and under section 408 for the fiscal year.

(C) EFFECT OF LACK OF FUNDS.--On request of any applicant who is eligible for a loan under this paragraph for which funds are not available, the applicant shall be considered to have applied for a loan guarantee under section 306.

(3) STATE TELECOMMUNICATIONS MODERNIZATION PLANS.--

(A) APPROVAL.--If, not later than 1 year after final regulations are promulgated to carry out this paragraph, any State, either by statute or through the public utility commission of the State, develops a telecommunications modernization plan that meets the requirements of subparagraph (B), the Administrator shall approve the plan for the State. If a State does not develop a plan in accordance with the requirements of the preceding sentence, the Administrator shall approve any telecommunications modernization plan for the State that meets the requirements that is developed by a majority of the borrowers of telephone loans made under this title who are located in the State.

(B) REQUIREMENTS.--For purposes of subparagraph (A), a telecommunications modernization plan must, at a minimum, meet the following objectives:

(i) The plan must provide for the elimination of party line service.

(ii) The plan must provide for the availability of telecommunications services for improved business, educational, and medical services.

(iii) The plan must encourage and improve computer networks and information highways for subscribers in rural areas.

(iv) The plan must provide for--

(I) subscribers in rural areas to be able to receive through telephone lines--

(aa) conference calling;

(bb) video images; and

(cc) data at a rate of at least 1,000,000 bits of information per second; and

(II) the proper routing of information to subscribers.

(v) The plan must provide for uniform deployment schedules to ensure that advanced services are deployed at the same time in rural and nonrural areas.

(vi) The plan must provide for such additional requirements for service standards as may be required by the Administrator.

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(C) FINALITY OF APPROVAL.--A telecommunications modernization plan approved under subparagraph (A) may not subsequently be disapproved. Notwithstanding paragraphs (1)(A)(iii) and (2)(A)(iii) [sic], and section 408(b)(4)(C), the Administrator and the Governor of the telephone bank may make a loan to a borrower serving a State that does not have a telecommunication modernization plan approved by the Administrator if the loan is made less than 1 year after the Administrator has adopted final regulations implementing this paragraph.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 68; Oct. 20, 1976, Public Law 94-570, §3, 90 Stat. 2701; Aug. 13, 1981, Public Law 97-35, Title I, §165(a), 95 Stat. 379; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 3, §2361, 104 Stat. 4042; Nov. 1, 1993, Public Law 103-129, §2(a)(1), §2(c)(6), 107 Stat. 1356; 7 U.S.C. 935.]

SEC. 306. GUARANTEED LOANS; ACCOMMODATION AND SUBORDINATION OF LIENS; ASSIGNABILITY OF GUARANTEED LOANS AND RELATED GUARANTEES.-The Administrator may provide financial assistance to borrowers for purposes provided in the Rural Electrification Act of 1936, as amended, by guaranteeing loans, in the full amount thereof, made by the Rural Telephone Bank, National Rural Utilities Cooperative Finance Corporation, and any other legally organized lending agency, or by accommodating or subordinating liens or mortgages in the fund held by the Administrator as owner or as trustee or custodian for purchases of notes from the fund, or by any combination of such guarantee, accommodation, or subordination. The Administrator shall not provide such assistance to any borrower of a telephone loan under this Act unless the borrower specifically applies for such assistance. No fees or charges shall be assessed for any such guarantee, accommodation, or subordination. With respect to guarantees issued by the Administrator under this section, on the request of the borrower of any such loan so guaranteed, the loan shall be made by the Federal Financing Bank and at a rate of interest that is not more than the rate of interest applicable to other similar loans then being made or purchased by the Bank. Guaranteed loans shall bear interest at the rate agreed upon by the borrower and the lender. Guaranteed loans, and accommodation and subordination of liens or mortgages, may be made concurrently with an insured loan. The amount of guaranteed loans shall be subject only to such limitations as to amounts as may be authorized from time to time by the Congress of the United States: Provided, That any amounts guaranteed hereunder shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States. As used in this title, a guaranteed loan is one which is initially made, held, and serviced by a legally organized lending agency and which guaranteed by the Administrator hereunder. A guaranteed loan, including the related guarantee, may be assigned to the extent provided in the contract of guarantee executed by the Administrator under this title; the assignability of such loan and guarantee shall be governed exclusively by said contract of guarantee.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 69; Nov. 4, 1975, Public Law 94-124, §1, 89 Stat. 677; Aug. 13, 1981, Public Law 97-35, Title I, §165(b), 95 Stat. 379; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 3, §2362, 104 Stat. 4042; 7 U.S.C. 936.]

(NOTE: Legislation which included a provision authorizing the prepayment of loans by rural electrification and telephone systems (July 2, 1986, Public Law 99-349, Title I, Chapter 1, 100 Stat. 713) was subsequently amended and the authorization repealed (Oct. 21, 1986, Public Law 99-509, Title I, §1011(b), 100 Stat. 1876.))

SEC. 306A. PREPAYMENT OF LOANS.-(a) Except as provided in subsection (c), a borrower of a loan made by the Federal Financing Bank and guaranteed under section 306 of

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this Act may prepay such loan (or any loan advance thereunder) by paying the outstanding principal balance due on the loan (or advance), if-

- (1) the loan is outstanding on July 2, 1986;
- (2) private capital, with the existing loan guarantee, is used to replace the loan; and
- (3) the borrower certifies that any savings from such prepayment will be passed on to its customers or used to improve the financial strength of the borrower in cases of financial hardship.

(b) No sums in addition to the payment of the outstanding principal balance due on the loan may be charged against the borrower, the fund, or the Rural Electrification Administration.

(c) (1) A borrower will not qualify for prepayment under this section if, in the opinion of the Secretary of the Treasury, to prepay in such borrower's case would adversely affect the operation of the Federal Financing Bank.

(2) Paragraph (1) shall be effective in fiscal year 1987 only for any loan the prepayment of the principal amount of which will cause the cumulative amount of net proceeds from all such prepayments made during such year to exceed \$2,017,500,000.

(d) (1) The Administrator shall permit, subject to subsection (a), prepayments of principal on loans in fiscal year 1987 under this section or Public Law 99-349 in such amounts as to realize net proceeds from all such prepayments in fiscal year 1987 in an amount not less than \$2,017,500,000.

(2) The Administrator shall establish-

(A) eligibility criteria to ensure that any loan prepayment activity required to be carried out under this subsection will be directed to those cooperative borrowers in greatest need of the benefits associated with prepayment, as determined by the Administrator; and

(B) such other eligibility criteria as the Administrator determines are necessary to carry out this subsection.

(e) Any guarantee of a loan prepaid under this section shall be fully assignable under the provisions of section 306 of this Act and transferrable. However, the Administrator may require that any such guarantee, if transferred or assigned, be transferred or assigned to a loan or security that, if sold, will be grouped with non-guaranteed loans or securities and sold in a manner to ensure that such sale will not unreasonably compete with the marketing of obligations of the United States.

[Oct. 21, 1986, Public Law 99-509, Title I, §1011(a), 100 Stat. 1875; 7 U.S.C. 936a.]

SEC. 306B. SALE OR PREPAYMENT OF DIRECT OR INSURED LOANS.- (a) DISCOUNTED PREPAYMENT BY BORROWERS OF ELECTRIC LOANS.--

(1) IN GENERAL.--Except as provided in paragraph (2), a direct or insured loan made under this Act shall not be sold or prepaid at a value that is less than the outstanding principal balance on the loan.

(2) EXCEPTION.--On request of the borrower, an electric loan made under this Act, or a portion of such a loan, that was advanced before May 1, 1992, or has been advanced for not less than 2 years, shall be sold to or prepaid by the borrower at the lesser of--

(A) the outstanding principal balance on the loan; or

(B) the present value of the loan discounted from the face value at maturity at the rate established by the Administrator.

(3) DISCOUNT RATE.--The discount rate applicable to the prepayment under this subsection of a loan or loan advance shall be the then current cost of funds to the Department of the Treasury for obligations of comparable maturity to the remaining term of the loan.

(4) TAX EXEMPT FINANCING.--If a borrower prepays a loan under this subsection using tax exempt financing, the discount shall be adjusted to ensure that the borrower receives a benefit that is equal to the benefit the borrower would receive if the

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borrower used fully taxable financing. The borrower shall certify in writing whether the financing will be tax exempt and shall comply with such other terms and conditions as the Administrator may establish that are reasonable and necessary to carry out this subsection.

(5) ELIGIBILITY.--

(A) IN GENERAL.--A borrower that has prepaid an insured or direct loan shall remain eligible for assistance under this Act in the same manner as other borrowers, except that--

(i) a borrower that has prepaid a loan, either before or after the date of enactment of this subsection, at a discount rate as provided by paragraph (3), shall not be eligible, except at the discretion of the Administrator, to apply for or receive direct or insured loans under this Act during the 120-month period beginning on the date of the prepayment; and

(ii) a borrower that prepaid a loan before the date of enactment of this subsection at a discount rate greater than that provided by paragraph (3), shall not be eligible--

(I) except at the discretion of the Administrator, to apply for or receive direct or insured loans described in clause (i) during the 180-month period beginning on the date of the prepayment; or

(II) to apply for or receive direct or insured loans described in clause (i) until the borrower has repaid to the Federal Government the sum of--

(aa) the amount (if any) by which the discount the borrower received by reason of the prepayment exceeds the discount the borrower would have received had the discount been based on the cost of funds to the Department of the Treasury at the time of the prepayment; and

(bb) interest on the amount described in item (aa), for the period beginning on the date of the prepayment and ending on the date of the repayment, at a rate equal to the average annual cost of borrowing by the Department of the Treasury.

(B) EFFECT ON EXISTING AGREEMENTS.--If a borrower and the Administrator have entered into an agreement with respect to a prepayment occurring before the date of enactment of this subsection, this paragraph shall supersede any provision in the agreement relating to the restoration of eligibility for loans under this Act.

(C) DISTRIBUTION BORROWERS.--A distribution borrower not in default on the repayment of loans made or insured under this Act shall be eligible for discounted prepayment as provided in this subsection. For the purpose of determining eligibility for discounted prepayment under this subsection or eligibility for assistance under this Act, a default by a borrower from which a distribution borrower purchases wholesale power shall not be considered a default by the distribution borrower.

(6) DEFINITIONS.--As used in this subsection:

(A) DIRECT LOAN.--The term 'direct loan' means a loan made under section 4.

(B) INSURED LOAN.--The term 'insured loan' means a loan made under section 305.

(b) MERGERS OF ELECTRIC BORROWERS.--Notwithstanding subsection (a), a direct or insured loan may be prepaid by an electric borrower at the lesser of the outstanding principal balance due thereon or the present value thereof discounted from the face value at maturity at the rate set by the Administrator if the borrower is an electrical organization which resulted from a merger or consolidation between a borrower and an organization which, prior to October 1, 1987, prepaid its direct or insured loans pursuant to this section. Prepayments by a borrower hereunder shall be made not later than one year after the effective date of the merger, consolidation, or other transaction. The discount rate to be set by the Administrator for direct or insured loans prepayments hereunder shall be based on the current cost of funds to the Department of the Treasury for obligations of comparable maturity to those being prepaid. If a borrower prepays using tax exempt financing, the discount shall be adjusted to make the discount equivalent to fully taxable financing. The borrower shall certify in writing

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whether the financing will be tax exempt and shall comply with such other terms and conditions as the Administrator may establish which are reasonable and necessary to implement this provision. As used in this section, the term "direct loan" means a loan made under section 4.

[Oct. 21, 1986, Public Law 99-509, Title I, §1011(a), 100 Stat. 1875; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle H, §2387, 104 Stat. 4051; Oct. 21, 1992, Public Law 102-428, §2, 106 Stat. 2183; 7 U.S.C. 936b.]

SEC. 306C. REFINANCING AND PREPAYMENT OF FFB LOANS.

(a) IN GENERAL.--A borrower of a loan made by the Federal Financing Bank and guaranteed under section 306 may, at the option of the borrower, refinance or prepay the loan or an advance on the loan, or any portion of the loan or advance.

(b) PENALTY.--

(1) DETERMINATION OF PENALTY.-- A penalty shall be assessed against a borrower that refinances or prepays a loan or loan advance, or any portion of a loan or advance, under this section. Except as provided in paragraph (2), the penalty shall be equal to the lesser of--

(A) the difference between the outstanding principal balance of the loan being refinanced and the present value of the loan discounted at a rate equal to the then current cost of funds to the Department of the Treasury for obligations of comparable maturity to the loan being refinanced or prepaid;

(B) 100 percent of the amount of interest for 1 year on the outstanding principal balance of the loan or loan advance, or any portion of the loan or advance, being refinanced, multiplied by the ratio that--

(i) the number of quarterly payment dates between the date of the refinancing or prepayment and the maturity date for the loan advance; bears to

(ii) the number of quarterly payment dates between the first quarterly payment date that occurs 12 years after the end of the year in which the amount being refinanced was advanced and the maturity date of the loan advance; and

(C) (i) the present value of 100 percent of the amount of interest for 1 year on the outstanding principal balance of the loan or loan advance, or any portion of the loan or advance, being refinanced or prepaid; plus

(ii) for the interval between the date of the refinancing or prepayment and the first quarterly payment date that occurs 12 years after the end of the year in which the amount being refinanced or prepaid was advanced, the present value of the difference between--

(I) each payment scheduled for the interval on the loan amount being refinanced or prepaid; and

(II) the payment amounts that would be required during the interval on the amounts being refinanced or prepaid if the interest rate on the loan were equal to the then current cost of funds to the Department of the Treasury for obligations of comparable maturity to the loan being refinanced or prepaid.

(2) LIMITATION.--

(A) IN GENERAL.-- Except as provided in subparagraph (B), the penalty provided by paragraph (1)(A) shall be required for refinancing or prepayment under this section.

(B) EXCEPTION.-- In the case of a loan advanced under an agreement that permits the refinancing or prepayment of the loan advance based on the payment of 1 year of interest on the outstanding principal balance of the loan advance, a borrower may, in lieu of the penalty required by paragraph (1)(A), pay a penalty as provided by--

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(i) paragraph (1)(B), if the loan advance has reached the 12-year maturity required under the loan agreement for the refinancing or prepayment; or

(ii) paragraph (1)(C), if the loan advance has not reached the 12-year maturity required under the loan agreement for the refinancing or prepayment.

(3) FINANCING OF PENALTY.--

(A) IN GENERAL.--In the case of a refinancing under this section, a borrower may, at the option of the borrower, meet the penalty requirements of paragraph (1) by--

(i) making a payment in the amount of the required penalty at the time of the refinancing; or

(ii) increasing the outstanding principal balance of the loan advance guaranteed by the Administrator that is being refinanced under this section by the amount of the penalty.

(B) INCREASED PRINCIPAL.--If a borrower meets the penalty requirements of paragraph (1) by increasing the outstanding principal balance of the loan advance that is being refinanced, the borrower shall make a payment at the time of the refinancing equal to 2.5 percent of the amount of the penalty that is added to the outstanding principal balance of the loan.

(c) LOAN TERMS AND CONDITIONS AFTER REFINANCING--

(1) IN GENERAL.--On the payment of a penalty as provided by subsection (b), the loan or loan advance, or any portion of the loan or advance, shall be refinanced at the interest rate described in paragraph (2) for a term selected by the borrower pursuant to paragraph (3), except that this paragraph shall not apply if the loan advance, or any portion of the advance, is prepaid by the borrower.

(2) INTEREST RATE.--The interest rate on a loan refinanced under this section shall be determined to be equal to the then current cost of funds to the Department of the Treasury for obligations of comparable maturity to a term selected by the borrower pursuant to paragraph (3) except that such rate shall not be greater than 7 percent per year, subject to subsection (d).

(3) LOAN TERM.--Subject to paragraph (4), the borrower of a loan that is refinanced under this section--

(A) shall select the term for which an interest rate shall be determined pursuant to paragraph (2); and

(B) at the end of the term (and any succeeding term selected by the borrower under this paragraph), may renew the loan for another term selected by the borrower.

(4) MAXIMUM TERM.--The borrower may not select a term pursuant to paragraph (3) that ends after the maturity date set for the loan before the refinancing of the loan under this section.

(5) EXISTING LOANS.--In the case of the refinancing of a loan of a borrower pursuant to this section and the inclusion of a penalty in the outstanding principal balance of the refinanced loan pursuant to subsection (b)(3)--

(A) the refinancing and inclusion of the penalty shall not be subject to appropriations or limited by the amount provided during a fiscal year for new loans, loan guarantees, or other credit activity;

(B) the request of the borrower for the refinancing under this section may not be denied or delayed; and

(C) the borrower may not be limited in the selection of any refinancing or prepayment option provided by this section to the borrower.

(d) MAXIMUM RATE OPTION.--

(1) IN GENERAL.--Except as provided in paragraphs (2), (3), and (4), a borrower of a loan or loan advance, or any portion of the loan or advance, that is refinanced under this section shall have the option of ensuring that the interest rate on such loan, loan advance, or portion thereof does not exceed 7 percent per year.

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(2) LIMITATION.--A borrower may not exercise the option under paragraph (1) in the case of a loan or loan advance, or portion thereof, if the total amount of such loans for which such option would be exercised exceeds 50 percent of the outstanding principal balance of the loans made to such borrower and guaranteed under section 306.

(3) FEE.--A borrower that exercises the maximum rate option under paragraph (1) shall, at the time of exercising such option, pay a fee equal to 1 percent of the outstanding principal balance of such loan or loan advance, or portion thereof, for which such option is exercised. Such fee shall be in addition to the penalties and other payments required under subsection (b).

(4) SUNSET.--The option provided under paragraph (1) shall not be available in the case of any loan or loan advance, or portion thereof, unless a written request to exercise such option is sent to the Administrator not later than 1 year after the effective date of regulations issued to carry out the Rural Electrification Loan Restructuring Act of 1993.

[Aug. 10, 1993, Public Law 103-66, 107 Stat. 327; Nov. 1, 1993, Public Law 103-129, §2(c)(10), 107 Stat. 1365; 7 U.S.C. 936c.]

SEC. 306D. ELIGIBILITY OF DISTRIBUTION BORROWERS FOR LOANS, LOAN GUARANTEES, AND LIEN ACCOMMODATIONS.

For the purpose of determining the eligibility of a distribution borrower not in default on the repayment of a loan made or guaranteed under this Act for a loan, loan guarantee, or lien accommodation under this title, a default by a borrower from which the distribution borrower purchases wholesale power shall not--

(1) be considered a default by the distribution borrower;

(2) reduce the eligibility of the distribution borrower for assistance under this Act; or

(3) be the cause, directly or indirectly, of imposing any requirement or restriction on the borrower as a condition of the assistance, except such requirements or restrictions as are necessary to implement a debt restructuring agreed on by the power supply borrower and the Government.

[Nov. 1, 1993, Public Law 103-129, §2(c)(7), 107 Stat. 1365; 7 U.S.C. 936d.]

SEC. 306E. ADMINISTRATIVE PROHIBITIONS APPLICABLE TO CERTAIN ELECTRIC BORROWERS.

(a) IN GENERAL.--For the purpose of relieving borrowers of unnecessary and burdensome requirements, the Administrator, guided by the practices of private lenders with respect to similar credit risks, shall issue regulations, applicable to any electric borrower under this Act whose net worth exceeds 110 percent of the outstanding principal balance on all loans made or guaranteed by the Administrator, to minimize those approval rights, requirements, restrictions, and prohibitions that the Administrator otherwise may establish with respect to the operations of such a borrower.

(b) SUBORDINATION OR SHARING OF LIENS.--At the request of a private lender providing financing to such a borrower for a capital investment, the Administrator shall, expeditiously, either offer to share the government's lien on the borrower's system or offer to subordinate the government's lien on that property financed by the private lender.

(c) ISSUANCE OF REGULATIONS.--In issuing regulations implementing this section, the Administrator may establish requirements, guided by the practices of private lenders, to ensure that the security for any loan made or guaranteed under this Act is reasonably adequate.

(d) AUTHORITY OF THE ADMINISTRATOR.--Nothing in this section limits the authority of the Administrator to establish terms and conditions with respect to the use by borrowers of the proceeds of loans made or guaranteed under this Act or to take any other action specifically authorized by law.

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[Nov. 1, 1993, Public Law 103-129, §2(c)(7), 107 Stat. 1365; Dec. 17, 1993, Public Law 103-201, 107 Stat. 2342; 7 U.S.C. 936e.]

SEC. 307. LOANS FROM OTHER CREDIT SOURCES.-When it appears to the Administrator that the loan applicant is able to obtain a loan for part of his credit needs from a responsible cooperative or other credit source at reasonable rates and terms consistent with the loan applicant's ability to pay and the achievement of the Act's objectives, he may request the loan applicant to apply for and accept such a loan concurrently with an insured loan, subject, however, to full use being made by the Administrator of the funds made available hereunder for such insured loans under this title. The Administrator may not request any applicant for an electric loan under this Act to apply for and accept a loan in an amount exceeding 30 percent of the credit needs of the applicant.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 70; Aug. 13, 1981, Public Law 97-35, Title I, §165(c), 95 Stat. 379; Nov. 1, 1993, Public Law 103-129, §2(c)(8), 107 Stat. 1365; 7 U.S.C. 937.]

SEC. 308. FULL FAITH AND CREDIT OF THE UNITED STATES. Any contract of insurance or guarantee executed by the Administrator under this title shall be an obligation supported by the full faith and credit of the United States and incontestable except for fraud or misrepresentation of which the holder had actual knowledge at the time it became a holder.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 70; Nov. 4, 1975, Public Law 94-124, §2, 89 Stat. 677; 7 U.S.C. 938.]

SEC. 309. LOAN TERMS AND CONDITIONS.-(a) IN GENERAL.-Loans made from or insured through the fund shall be for the same purposes and on the same terms and conditions as are provided for loans in titles I and II of this Act except as otherwise provided in sections 303 to 308 inclusive. The preceding sentence shall not be construed to make section 408(b)(2) or 412 applicable to this title.

(b) TELEPHONE LOANS UNDER THIS TITLE.-The term of any telephone loan made under this title shall be determined by the borrower at the time the loan application is submitted.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 70; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 3, §2360, 104 Stat. 4042; Nov. 1, 1993, Public Law 103-129, §2(b)(2), 107 Stat. 1363; 7 U.S.C. 939.]

SEC. 310. REFINANCING OF RURAL DEVELOPMENT LOANS. At the request of the borrower, the Administrator is authorized and directed to refinance with loans which will be insured under this Act, at the interest rates provided in section 305, any loans made for rural electric and telephone facilities under any provision of the Consolidated Farm and Rural Development Act.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 70; 7 U.S.C. 940.]

SEC. 311. PRIVATIZATION PROGRAM.-The Administrator shall establish a privatization demonstration program which shall permit borrowers to repay loans made by the Federal Financing Bank and guaranteed under section 306 of this Act by paying the outstanding principal balance due on the loans. No sums in addition to the payment of the outstanding principal balance due on the Federal Financing Bank loans may be charged as the result of such prepayment against the borrower, the fund, or the Rural Electrification Administration. Federal Financing Bank loans shall be refinanced using the existing section 306 loan guarantee, with private capital, in an amount not to exceed the outstanding principal amount prepaid: Provided, That such guarantee of private capital shall be 90% of the principal

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amount of the loan or any portion thereof plus accrued interest outstanding at any time during the maturity period of the loan and shall be fully transferable and assignable.

Notwithstanding any other provision of law, borrowers may prepay Federal Financing Bank loans under this section, except that such borrowers shall be required to prepay all of their outstanding loans made or guaranteed under this Act within one year of prepayment of the first loan. A direct or insured loan prepaid under this section shall be prepaid by the borrower at the lesser of the outstanding principal balance due on the loan or the loan's present value discounted from the face value at maturity at the rate set by the Administrator. A Rural Telephone Bank loan shall be prepaid by paying the outstanding principal balance on the loan. No guarantee or other financial assistance shall be available to the borrowers to refinance outstanding loans prepaid hereunder. In the case of an electric borrower prepaying under this section or otherwise prepaying a loan at less than the outstanding principal balance due on the loan, after the date of prepayment, no loans, loan guarantees or other financial assistance shall be provided pursuant to this Act to the borrower or its successors or for the purpose of financing the construction or operation of generating plants or bulk transmission lines for the purpose of furnishing electric energy in the area served on a retail or wholesale basis by such borrower. In the case of a telephone borrower prepaying under this section, or otherwise prepaying a loan at less than the outstanding principal balance due on the loan, after the date of prepayment, no loans, loan guarantees or other financial assistance shall be provided pursuant to this Act to the borrower or its successors or for the purpose of furnishing or improving telephone service in the area served by such borrower. In determining the service area of electric borrowers, the Administrator shall make allowances and adjustments to avoid adversely affecting the eligibility of other borrowers for financial assistance under this Act where such borrowers are currently providing electric supply services for retail loads in the same area and which are reasonably expected to continue providing electric supply services for retail loads in such areas. In the event that the borrower prepaying under this section shall be using a majority of its generating capacity to directly serve its retail consumers, other borrowers which are purchasing power from such borrower as of September 30, 1986, shall continue to remain eligible for financing under this Act for needs in their service area. Nothing in this section shall prohibit a borrower which has prepaid pursuant to this section from participating in generation and transmission projects with borrowers which have not prepaid, so long as the borrower which has prepaid utilizes private capital financing without financial assistance under this Act: Provided further, That nothing in this section shall prohibit short-term power purchases by borrowers which have prepaid under this section from borrowers which have not prepaid. The Administrator shall issue regulations to implement this section within 60 days.

[Oct. 30, 1986, Public Law 99-591, Title VI, §623, 100 Stat. 3341-333; 7 U.S.C. 940a.]

(NOTE: Legislation which enacted this section provides that its provisions "shall apply only to the rural electrification program in the State of Alaska." (Oct. 30, 1986, Public Law 99-591, Title VIII, Part C, §115, 100 Stat. 3341-352.))

SEC. 312. USE OF FUNDS-A borrower of an insured or guaranteed electric loan under this Act may, without restriction or prior approval of the Administrator, invest its own funds or make loans or guarantees, not in excess of 15 percent of its total utility plant.

[Dec. 22, 1987, Public Law 100-203, Title I, Subtitle D, ch. 1, §1402, 101 Stat. 1330-21; 7 U.S.C. 940b.]

SEC. 313. CUSHION OF CREDIT PAYMENTS PROGRAM-

(a) ESTABLISHMENT.-

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(1) IN GENERAL.-The Administrator shall develop and promote a program to encourage borrowers to voluntarily make deposits into cushion of credit accounts established within the Rural Electrification and Telephone Revolving Fund.

(2) INTEREST.-Amounts in each cushion of credit account shall accrue interest to the borrower at a rate of 5 percent per annum.

(3) BALANCE.-A borrower may reduce the balance of its cushion of credit account only if the amount obtained from the reduction is used to make scheduled payments on loans made or guaranteed under this Act.

(b) USES OF CUSHION OF CREDIT PAYMENTS.-

(1) IN GENERAL.-

(A) CASH BALANCE.-Cushion of credit payments shall be held in the Rural Electrification and Telephone Revolving Fund as a cash balance in the cushion of credit accounts of borrowers.

(B) INTEREST.-All cash balance amounts (obtained from cushion of credit payments, loan payments, and other sources) held by the Fund shall bear interest to the Fund at a rate equal to the weighted average rate on outstanding certificates of beneficial ownership issued by the Fund.

(C) CREDITS.-The amount of interest accrued on the cash balances shall be credited to the Fund as an offsetting reduction to the amount of interest paid by the Fund on its certificates of beneficial ownership.

(2) RURAL ECONOMIC DEVELOPMENT SUBACCOUNT.-

(A) MAINTENANCE OF ACCOUNT.-The Administrator shall maintain a subaccount within the Rural Electrification and Telephone Revolving Fund to which shall be credited, on a monthly basis, a sum determined by multiplying the outstanding cushion of credit payments made after October 1, 1987, by the difference (converted to a monthly basis) between the average weighted interest rate paid on outstanding certificates of beneficial ownership issued by the Fund and the 5 percent rate of interest provided to borrowers on cushion of credit payments.

(B) GRANTS.-The Administrator is authorized, from the interest differential sums credited this subaccount and from any other funds made available thereto, to provide grants or zero interest loans to borrowers under this Act for the purpose of promoting rural economic development and job creation projects, including funding for project feasibility studies, start-up costs, incubator projects, and other reasonable expenses for the purpose of fostering rural development.

(C) REPAYMENTS.-In the case of zero interest loans, the Administrator shall establish such reasonable repayment terms as will ensure borrower participation.

(D) PROCEEDS.-All proceeds from the repayment of such loans shall be returned to the subaccount.

(E) NUMBER OF GRANTS.-Such loans and grants shall be made during each fiscal year to the full extent of the amounts held by the rural economic development subaccount, subject only to limitations as may be from time-to-time imposed by law.

[Dec. 22, 1987, Public Law 100-203, Title I, Subtitle D, ch. 1, §1403, 101 Stat. 1330-21; 7 U.S.C. 940c.]

SEC. 314. LIMITATIONS ON AUTHORIZATION OF APPROPRIATIONS.

(a) DEFINITION OF ADJUSTMENT PERCENTAGE.-- As used in this section, the term 'adjustment percentage' means, with respect to a fiscal year, the percentage (if any) by which--

(1) the average of the Consumer Price Index (as defined in section 1(f)(5) of the Internal Revenue Code of 1986) for the 1-year period ending on July 31 of the immediately preceding fiscal year; exceeds

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(2) the average of the Consumer Price Index (as so defined) for the 1-year period ending on July 31, 1993.

(b) FISCAL YEARS 1994 THROUGH 1998.--In the case of each of fiscal years 1994 through 1998, there are authorized to be appropriated to the Administrator such sums as may be necessary for the cost of loans in the following amounts, for the following purposes:

(1) ELECTRIC HARDSHIP LOANS.--For loans under section 305(c)(1)--

(A) for fiscal year 1994, \$125,000,000; and

(B) for each of fiscal years 1995 through 1998, \$125,000,000, increased by the adjustment percentage for the fiscal year.

(2) ELECTRIC MUNICIPAL RATE LOANS.--For loans under section 305(c)(2)--

(A) for fiscal year 1994, \$600,000,000; and

(B) for each of fiscal years 1995 through 1998, \$600,000,000, increased by the adjustment percentage for the fiscal year.

(3) TELEPHONE HARDSHIP LOANS.--For loans under section 305(d)(1)--

(A) for fiscal year 1994, \$125,000,000; and

(B) for each of fiscal years 1995 through 1998, \$125,000,000, increased by the adjustment percentage for the fiscal year.

(4) TELEPHONE COST-OF-MONEY LOANS.--For loans under section 305(d)(2)--

(A) for fiscal year 1994, \$198,000,000; and

(B) for each of fiscal years 1995 through 1998, \$198,000,000, increased by the adjustment percentage for the fiscal year.

(c) FUNDING LEVELS.--The Administrator shall make insured loans under this title for the purposes, in the amounts, and for the periods of time specified in subsection (b), as provided in advance in appropriations Acts.

(d) AVAILABILITY OF FUNDS FOR INSURED LOANS.--Amounts made available for loans under section 305 are authorized to remain available until expended.

[Nov. 5, 1990, Public Law 101-508, Subtitle B, §1201, 104 Stat. 1388-7; Nov. 1, 1993, Public Law 103-129, §2(b), 107 Stat. 1362; 7 U.S.C. 940d]

TITLE IV-RURAL TELEPHONE BANK

SEC. 401. TELEPHONE BANK.--(a) There is hereby established a body corporate to be known as the Rural Telephone Bank (hereinafter called the telephone bank).

(b) The general purposes of the telephone bank shall be to obtain an adequate supply of supplemental funds to the extent feasible from non-Federal sources, to utilize said funds in the making of loans under section 408 of this title, and to conduct its operations to the extent practicable on a self-sustaining basis.

(c) the telephone bank shall be deemed to be an instrumentality of the United States, and shall, for the purposes of jurisdiction and venue, be deemed a citizen and resident of the District of Columbia. The telephone bank is authorized to make payments to State, territorial, and local governments in lieu of property taxes upon real property and tangible personal property which was subject to State, territorial, and local taxation before acquisition by the telephone bank. Such payment may be in the amounts, at the times, and upon such terms as the telephone bank deems appropriate but the telephone bank shall be guided by the policy of making payments not in excess of the taxes which would have been payable upon such property in the condition in which it was acquired.

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 30; 7 U.S.C. 941.]

SEC. 402. GENERAL POWERS.--To carry out the specific powers herein authorized, the telephone bank shall have power to (a) adopt, alter, and use a corporate seal; (b) sue and be

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sued in its corporate name; (c) make contracts, leases, and cooperative agreements, or enter into other transactions as may be necessary in the conduct of its business, and on such terms as it may deem appropriate; (d) acquire, in any lawful manner, hold, maintain, use, and dispose of property: Provided, That the telephone bank may only acquire property needed in the conduct of its banking operations or pledged or mortgaged to secure loans made hereunder or in temporary operation or maintenance thereof: Provided further, That any such pledged or mortgaged property so acquired shall be disposed of as promptly as is consistent with prudent liquidation practices, but in no event later than five years after such acquisition; (e) accept gifts or donations of services or of property in aid of any of the purposes herein authorize; (f) appoint such officers, attorneys, agents, and employees, vest them with such powers and duties, fix and pay such compensation to them for their services as the telephone bank may determine; (g) determine the character of and the necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed, and paid; (h) execute, in accordance with its bylaws, all instruments necessary or appropriate in the exercise of any of its powers; (i) collect or compromise all obligations assigned to or held by it and all legal or equitable rights accruing to it in connection with the payment of such obligations until such time as such obligations may be referred to the Attorney General for suit or collection; and (j) exercise all such other powers as shall be necessary or incidental to carrying out its functions under this title.

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 30; 7 U.S.C. 942.]

SEC. 403. SPECIAL PROVISIONS GOVERNING TELEPHONE BANK AS FEDERAL AGENCY UNTIL CONVERSION OF OWNERSHIP, CONTROL, AND OPERATION.-

Until the ownership, control, and operation of the telephone bank is converted as provided in section 410(a) of this title and not thereafter-

(a) The telephone bank shall be an agency of the United States and shall be subject to the supervision and direction of the Secretary of Agriculture (hereinafter called the Secretary): Provided, however, That the telephone bank shall at no time be entitled to transmission if its mail free of postage, nor shall it have the priority of the United States in the payment of debts out of bankrupt, insolvent, and decedents' estates;

(b) in order to perform its responsibilities under this title, the telephone bank may partially or jointly utilize the facilities and the services of employees of the Rural Electrification Administration or of any other agency of the Department of Agriculture, without cost to the telephone bank;

(c) the telephone bank shall be subject to the provisions of the Government Corporation Control Act, as amended (31 U.S.C. 841, et seq.), in the same manner and to the same extent as if it were included in the definition of "wholly owned Government corporation" as set forth in section 101 of said Act (31 U.S.C. 846);

(d) the telephone bank may without regard to the civil service classification laws appoint and fix the compensation of such officers and employees of the telephone bank as it may deem necessary;

(e) the telephone bank shall be subject to the provisions of sections 517, 519, and 2679 of title 28, United States Code.

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 31; 7 U.S.C. 943.]

SEC. 404. GOVERNOR OF TELEPHONE BANK; FUNCTIONS, POWERS AND DUTIES.-

Subject to the provisions of section 410, the Administrator of the Rural Electrification Administration shall serve as the chief executive officer of the telephone banks (herein called the Governor of the telephone bank). Except as to matters specifically reserved to the Telephone Bank Board in this title, the Governor of the telephone bank shall exercise and perform all functions, powers, and duties of the telephone bank.

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[May 7, 1971, Public Law 92-12, §2, 85 Stat. 31; 7 U.S.C. 944.]

SEC. 405. BOARD OF DIRECTORS.-(a) IN GENERAL.-The management of the telephone bank, within the limitations prescribed by law, shall be vested in a board of directors (in this title referred to as the "Telephone Bank Board").

(b) MEMBERSHIP.-The Telephone Bank Board shall consist of thirteen individuals as follows:

(1) PRESIDENTIAL APPOINTEES.-The President shall appoint seven individuals to serve on the Telephone Bank Board who shall serve at the pleasure of the President-

(A) five of whom shall be officers or employees of the Department of Agriculture and not officers or employees of the Rural Electrification Administration; and

(B) two of whom shall be from the general public and not officers or employees of the Federal Government.

(2) COOPERATIVE MEMBERS.-The cooperative-type entities, and organizations controlled by such entities, that hold class B or class C stock shall elect three individuals to serve on the Telephone Bank Board for a term of two years, by a plurality vote of the stockholders voting in the election.

(3) COMMERCIAL MEMBERS.-The commercial-type entities, and the organizations controlled by such entities, that hold class B or class C stock shall elect three individuals to serve on the Telephone Bank Board for a term of two years, by a plurality vote of the stockholders voting in the election.

(c) ELECTIONS.-

(1) VALIDITY.-An election under paragraph (2) or (3) of subsection (b) shall not be considered valid unless a majority of the stockholders eligible to vote in the election have voted in the election.

(2) BALLOTING.-Balloting in an election under paragraph (2) or (3) of subsection (b) shall be conducted by mail pursuant to the procedures authorized in the bylaws of the telephone bank.

(3) NO CUMULATIVE VOTING.-Cumulative voting shall not be permitted in any election under paragraph (2) or (3) of subsection (b).

(d) COMPENSATION.-

(1) IN GENERAL.-Except as provided in paragraph (2), each member of the Telephone Bank Board shall receive \$100 per day for each day or part thereof, not to exceed fifty days per year, spent in the performance of their official duties, and shall be reimbursed for travel and other expenses in such manner and subject to such limitations as the Telephone Bank Board may prescribe.

(2) EXCEPTIONS.-The five members of the Telephone Bank Board appointed under subsection (b) (1) (A) shall not receive compensation by reason of their service on the Telephone Bank Board.

(e) SUCCESSION.-A member of the Telephone Bank Board may serve after the expiration of the term of office of such member until the successor for such member has taken office.

(f) CHAIRPERSON.-The members of the Telephone Bank Board shall elect one of such members to be the Chairperson of the Board, in accordance with the bylaws of the telephone bank. The Chairperson shall preside at all meetings of the Board and may vote on a matter before the Board unless the vote would result in a tie vote on the matter.

(g) BYLAWS.-The Telephone Bank Board shall prescribe bylaws, not inconsistent with law, regulating the manner in which the telephone bank's business shall be conducted, its directors and officers elected, its stock issued, held, and disposed of, its property transferred, its bylaws amended, and the powers and privileges granted to it by law and exercised and enjoyed.

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(h) MEETINGS.-The Telephone Bank Board shall meet at such times and places as it may fix and determine, but shall hold at least four regularly scheduled meetings a year, and special meetings may be held on call in the manner specified in the bylaws of the telephone bank.

(i) ANNUAL REPORT.-The Telephone Bank Board shall make an annual report to the Secretary for transmittal to the Congress on the administration of this title IV and any other matters relating to the effectuation of the policies of title IV, including recommendations for legislation.

(j) OPEN MEETINGS.-For purposes of section 552b of title 5, United States Code, the Telephone Bank Board shall be treated as an agency within the meaning of subsection (a)(1) of such section.

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 32; May 11, 1973, Public Law 93-32, §4, 87 Stat. 70; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 4, §2363, 104 Stat. 4042; 7 U.S.C. 945.]

SEC. 406. CAPITALIZATION.-(a) The telephone bank's capital shall consist of capital subscribed by the United States, by borrowers from the telephone bank, by corporations and public bodies eligible to become borrowers from the telephone bank, and by organizations controlled by such borrowers, corporations, and public bodies. Beginning with the fiscal year 1971 and for each fiscal year thereafter but not later than fiscal year 1991, the United States shall furnish capital for the purchase of class A stock and there are hereby authorized to be appropriated such amounts, not to exceed \$30,000,000 annually, for such purchases until such class A stock shall equal \$600,000,000, Provided, That on or before July 1, 1975, the Secretary shall make a report to the President for transmittal to the Congress on the status of capitalization of the telephone bank by the United States with appropriate recommendations. As used in this section and section 301, the term "net collection proceeds" shall be deemed to mean payments from and after July 1, 1969, of principal and interest on loans heretofore or hereafter made under section 201 of this Act, less an amount representing interest payable to the Secretary of the Treasury on loans to the Administrator for telephone purposes pursuant to section 3(a) of this Act.

(b) The capital stock of the telephone bank shall consist of three classes, class A, class B, and class C, the rights, powers, privileges, and preferences of the separate classes to be as specified, not inconsistent with law, in the bylaws of the telephone bank. Class B and class C stock shall be voting stock, but no holder of said stock shall be entitled to more than one vote, nor shall class B and class C stockholders, regardless of their number, which are owned or controlled by the same person, group of persons, firm, association, or corporation, be entitled in any event to more than one vote.

(c) Class A stock shall be issued only to the Administrator of the Rural Electrification Administration on behalf of the United States in exchange for capital furnished to the telephone bank pursuant to subsection (a), and such class A stock shall be redeemed and retired by the telephone bank as soon as practicable after September 30, 1995, but not to the extent that, the Telephone Bank Board determines that such retirement will impair the operations of the telephone bank: Provided, That the minimum amount of class A stock that shall be retired each year after said date shall equal the amount of class B stock sold by the telephone bank during such year. Class A stock shall be entitled to a return, payable from income, at the rate of 2 per centum per annum on the amounts of said class A stock actually paid into the telephone bank. Such return shall be cumulative and shall be payable annually into miscellaneous receipts of the Treasury.

(d) Class B stock shall be held only by recipients of loans under section 408 of this Act. Borrowers receiving loan funds pursuant to section 408(a)(1) or (2) shall be required to invest in class B stock 5 per centum of the amount of loan funds so provided by paying an amount

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equal to 5 per centum of the amount of each loan advance, at the time of such advance. No dividends shall be payable on class B stock. All holders of class B stock shall be entitled to patronage refunds in class B stock under terms and conditions to be specified in the bylaws of the telephone bank.

(e) Class C stock shall be available for purchase and shall be held only by borrowers, or by corporations and public bodies eligible to borrow under section 408 of this Act, or by organizations controlled by such borrowers, corporations and public bodies, and shall be entitled to dividends in the manner specified in the bylaws of the telephone bank. Such dividends shall be payable only from income and, until all class A stock is retired, shall not exceed the current average rate payable on its telephone debentures.

(f) If a firm, association, corporation, or public body is not authorized under the laws of the jurisdiction in which it is organized to acquire stock of the telephone bank, the telephone bank shall, in lieu thereof, permit such organization to pay into a special fund of the telephone bank a sum equivalent to the amount of stock to be purchased. Each reference in this title to capital stock, or to class B, or class C stock, shall include also the special fund equivalents of such stock, and to the extent permitted under the laws of the jurisdiction in which such organization is organized, a holder of special fund equivalents of class B or class C stock, shall have the same rights and status as a holder of class B or class C stock, respectively. The rights and obligations of the telephone bank in respect of such special fund equivalent shall be identical to its rights and obligations in respect of class B or class C stock, respectively.

(g) After payment of all operating expenses of the telephone bank, including interest on its telephone debentures, setting aside appropriate funds for the reserve for loan losses, and making payment in lieu of taxes, and returns on class A stock as provided in section 406(c), and on class C stock, the Telephone Bank Board shall annually set aside the remaining earnings of the telephone bank for patronage refunds in accordance with the bylaws of the telephone bank. The telephone bank may not establish any reserve other than the reserves referred to in this subsection and in subsection (h).

(h) There is hereby established in the telephone bank a reserve for losses due to interest rate fluctuations. Within 30 days after the date of the enactment of this subsection, the Governor of the telephone bank shall transfer to the reserve for losses due to interest rate fluctuations all amounts in the reserve for contingencies as of the date of the enactment of this subsection. All amounts so transferred shall not be transferred, directly or indirectly, to the reserve for contingencies. Amounts in the reserve for interest rate fluctuations may be expended only to cover operating losses of the telephone bank (other than losses attributable to loan defaults) and only after taking into consideration any recommendations made by the General Accounting Office under section 1413(b) of the Omnibus Budget Reconciliation Act of 1987.

(i) The Governor of the telephone bank may invest in obligations of the United States the amounts in the account in the Treasury of the United States numbered 12X8139 (known as the 'RTB Equity Fund').

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 33; May 11, 1973, Public Law 93-32, §5, 87 Stat. 70; April 21, 1976, Public Law 94-273, §2(2), 90 Stat. 375; Dec. 22, 1981, Public Law 97-98, Title XVI, §1607, 95 Stat. 1347; Dec. 22, 1987, Public Law 100-203, Title I, Subtitle D, ch. 2, §1413(a), (c), 101 Stat. 1330-26, 1330-27; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 4, §§2364, 2367, 104 Stat. 4044; Nov. 1, 1993, Public Law 103-129, §2(c)(9), 107 Stat. 1365; 7 U.S.C. 946.]

SEC. 407. BORROWING POWER; TELEPHONE DEBENTURES; ISSUANCE; INTEREST RATES; TERMS AND CONDITIONS; RATIO TO PAID-IN CAPITAL AND RETAINED EARNINGS; INVESTMENTS IN DEBENTURES; DEBENTURES AS SECURITY; PURCHASE AND SALE OF DEBENTURES BY SECRETARY OF

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TREASURY; TREATMENT AS PUBLIC DEBT TRANSACTIONS OF UNITED STATES; EXCLUSION OF TRANSACTIONS FROM DEBT TOTALS.-(a) The telephone bank is authorized to obtain funds through the public or private sale of its bonds, debentures, notes, and other evidences of indebtedness (herein collectively called telephone debentures). Telephone debentures shall be issued at such times, bear interest at such rates, and contain such other terms and conditions as the Telephone Bank Board shall determine: Provided, however, That the amount of the telephone debentures which may be outstanding at any one time pursuant to this section shall not exceed twenty times the paid-in capital and retained earnings of the telephone bank. Telephone debentures shall not be exempt, either as to principal or interest, from any taxation now or hereafter imposed by the United States, by any territory, dependency, or possession thereof, or by any State or local taxing authority. Telephone debentures shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority and control of the United States or any officer or officers thereof.

(b) The Telephone Bank is also authorized to issue telephone debentures to the Secretary of the Treasury, and the Secretary of the Treasury may in his discretion purchase any such debentures, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act as now or hereafter in force are extended to include such purchases. Each purchase of telephone debentures by the Secretary of the Treasury under this subsection shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity. The Secretary of the Treasury may sell, upon such terms and conditions and at such price or prices as he shall determine, any of the telephone debentures acquired by him under this subsection. All purchases and sales by the Secretary of the Treasury of such debentures under this subsection shall be treated as public debt transactions of the United States.

(c) Purchases and resales by the Secretary of the Treasury as authorized in subsection (b) of this section shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.
[May 7, 1971, Public Law 92-12, §2, 85 Stat. 34; June 30, 1972, Public Law 92-324, §2, 86 Stat. 390; May 11, 1973, Public Law 93-32, §§6, 7, 87 Stat. 70; 7 U.S.C. 947.]

SEC. 408. LENDING POWER.-(a) The Governor of the telephone bank shall make loans on behalf of the telephone bank, to the extent that there are qualifying applications therefor, subject only to limitations as to amounts authorized for loans and advances as may be imposed by law enacted by the Congress of the United States for loans to be made in any one year, and in conformance with policies approved by the Telephone Bank Board, to corporations and public bodies which have received a loan or loan commitment pursuant to section 201 of this Act, or which have been certified by the Administrator to be eligible for such a loan or loan commitment, (1) for the same purposes and under the same limitations for which loans may be made under section 201 of this Act, (2) for the acquisition, purchase, and installation of telephone lines, systems, and facilities (other than buildings used primarily for administrative purposes, vehicles not used primarily in construction, and customer premise equipment) related to the furnishing, improvement, or extension of rural telecommunications service, and (3) for the purchase of class B stock required to be purchased under Section 406(d) of this Act but not for the purchase of class C stock, subject, as to the purposes set forth in (2) hereof, to the following provisos: That in the case of any such loan for the

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acquisition of telephone lines, facilities, or systems, the acquisition shall be approved by the Secretary, the location and character thereof shall be such as to improve the efficiency, effectiveness, or financial stability of the telephone system of the borrower, and in respect of exchange facilities for local services, the size of each acquisition shall not be greater than the borrower's existing system at the time it receives its first loan from the telephone bank, taking into account the number of subscribers served, miles of line, and plant investment. Loans and advances made under this section shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

(b) Loans under this section shall be on such terms and conditions as the Governor of the telephone bank shall determine, subject, however, to the following restrictions:

(1) All loans made under this section shall be fully amortized over a period not to exceed fifty years.

(2) Funds to be loaned under this Act to any borrower shall be loaned under this section in preference to section 201 if the borrower is eligible for such a loan and funds are available therefor. Notwithstanding the foregoing or any other provision of law, all loans made pursuant to this Act for facilities for telephone systems with an average subscriber density of three or fewer per mile shall be made under section 201 of this Act; but this provision shall not preclude the making of such loans from the telephone bank at the election of the borrower.

(3) (A) Loans under this section shall bear interest at the "cost of money rate." The cost of money rate is defined as the average cost of moneys to the telephone bank as determined by the Governor, but not less than 5 per centum per annum.

(B) On and after the date of the enactment of this subparagraph, advances made on or after such date of enactment under loan commitments made on or after October 1, 1987, shall bear interest at the rate determined under subparagraph (C), but in no event at a rate that is less than 5 percent per annum.

(C) The rate determined under this subparagraph shall be-

(i) for the period beginning on the date the advance is made and ending at the close of the fiscal year in which the advance is made, the average yield (on the date of the advance) on outstanding marketable obligations of the United States having a final maturity comparable to the final maturity of the advance; and

(ii) after the fiscal year in which the advance is made, the cost of money rate for such fiscal year, as determined under subparagraph (D).

(D) Within 30 days after the end of each fiscal year, the Governor shall determine to the nearest 0.01 percent the cost of money rate for the fiscal year, by calculating the sum of the results of the following calculations:

(i) The aggregate of all amounts received by the telephone bank during the fiscal year from the issuance of class A stock, multiplied by the rate of return payable by the telephone bank during the fiscal year, as specified in section 406(c), to holders of class A stock, which product is divided by the aggregate of the amounts advanced by the telephone bank during the fiscal year.

(ii) The aggregate of all amounts received by the telephone bank during the fiscal year from the issuance of class B stock, multiplied by the rate at which dividends are payable by the telephone bank during the fiscal year, as specified in section 406(d), to holders of class B stock, which product is divided by the aggregate of the amounts advanced by the telephone bank during the fiscal year. For purposes of the calculation under this subparagraph, such rate shall be zero.

(iii) The aggregate of all amounts received by the telephone bank during the fiscal year from the issuance of class C stock, multiplied by the rate at which dividends are payable by the telephone bank during the fiscal year, under section 406(e), to holders of class

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C stock, which product is divided by the aggregate of the amounts advanced by the telephone bank during the fiscal year.

(iv) (I) The sum of the results of the calculation described in the subclause (II).

(II) The amounts received by the telephone bank during the fiscal year from each issue of telephone debentures and other obligations of the telephone bank, multiplied, respectively, by the rates at which interest is payable during the fiscal year by the telephone bank to holders of each issue, each of which products is divided, respectively, by the aggregate of the amounts advanced by the telephone bank during the fiscal year.

(v) (I) The amount by which the aggregate of the amounts advanced by the telephone bank during the fiscal year exceeds the aggregate of the amounts received by the telephone bank from the issuance of class A stock, class B stock, class C stock, and telephone debentures and other obligations of the telephone bank during the fiscal year, multiplied by the historic cost of money rate as of the close of the fiscal year immediately preceding the fiscal year, which product is divided by the aggregate of the amounts advanced by the telephone bank during the fiscal year.

(II) For purposes of this clause, the term "historic cost of money rate", with respect to the close of a preceding fiscal year, means the sum of the results of the following calculations: The amounts advanced by the telephone bank in each fiscal year during the period beginning with fiscal year 1974 and ending with the preceding fiscal year, multiplied, respectively, by the cost of money rate for the fiscal year (as set forth in the table in subparagraph (E)) for fiscal years 1974 through 1987, and as determined by the Governor under this subparagraph for fiscal years after fiscal year 1987), each of which products is divided, respectively, by the aggregate of the amounts advanced by the telephone bank during the period.

(E) For purposes of subparagraph (D)(v)(II) [sic], the cost of money rate for the fiscal years in which each advance was made shall be as set forth in the following table:

The cost of money
For advances made in- rate shall be-

Fiscal year 1974.....	5.01 percent
Fiscal year 1975.....	5.85 percent
Fiscal year 1976.....	5.33 percent
Fiscal year 1977.....	5.00 percent
Fiscal year 1978.....	5.87 percent
Fiscal year 1979.....	5.93 percent
Fiscal year 1980.....	8.10 percent
Fiscal year 1981.....	9.46 percent
Fiscal year 1982.....	8.39 percent
Fiscal year 1983.....	6.99 percent
Fiscal year 1984.....	6.55 percent
Fiscal year 1985.....	5.00 percent
Fiscal year 1986.....	5.00 percent
Fiscal year 1987.....	5.00 percent

For purposes of this subparagraph, the term "fiscal year" means the 12-month period ending on September 30 of the designated year.

(F) (i) Notwithstanding subparagraph (B), if a borrower holds a commitment for a loan under this section made on or after October 1, 1987, and before the date of the enactment of this paragraph, part or all of the proceeds of which have not been advanced as of

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such date of enactment, the borrower may, until the later of the date the next advance under the loan commitment is made or 90 days after such date of enactment, elect to have the interest rate specified in the loan commitment apply to the unadvanced portion of the loan in lieu of the rate which (but for this clause) would apply to the unadvanced portion under this paragraph. If any borrower makes an election under this clause with respect to a loan, the Governor shall adjust the interest rate which applies to the unadvanced portion of the loan accordingly.

(ii) (I) If the telephone bank, pursuant to section 407(b), issues telephone debentures on any date to refinance telephone debentures or other obligations of the telephone bank, the telephone bank shall, in addition to any interest rate reduction required by any other provision of this paragraph, for the period applicable to the advance, reduce the interest rate charged on each advance made under this section during the fiscal year in which the refinanced debentures or other obligations were originally issued by the amount applicable to the advance.

(II) For the purposes of subclause (I), the term "the period applicable to the advance" means the period beginning on the issue date described in subclause (I) and ending on the earlier of the date the advance matures or is completely prepaid.

(III) For purposes of subclause (I), the term "the amount applicable to the advance" means an amount which fully reflects that percentage of the funds saved by the telephone bank as a result of the refinancing which is equal to the percentage representation of the advance in all advances described in subclause (I).

(IV) Within 60 days after any issue date described in subclause (I), the Governor shall amend the loan documentation for each advance described in subclause (I), as necessary, to reflect any interest rate reduction applicable to the advance by reason of this clause, and shall notify each affected borrower of the reduction.

(G) Within 30 days after the publication of any determination made under subparagraph (D), any affected borrower may obtain review of the determination, or any other equitable relief as may be determined appropriate by the United States court of appeals for the judicial circuit in which the borrower does business by filing a written petition requesting the court to set aside or modify such determination. On receipt of such a petition, the clerk of the court shall transmit a copy of the petition to the Governor. On receipt of a copy of such a petition from the clerk of the court, the Governor shall file with the court the record on which the determination is based. The court shall have jurisdiction to affirm, set aside, or modify the determination.

(H) Within 5 days after determining the cost of money rate for a fiscal year, the Governor shall-

(i) cause the determination to be published in the Federal Register in accordance with section 552 of title 5, United States Code; and

(ii) furnish a copy of the determination to the Comptroller General of the United States.

(I) The Comptroller General shall review, on an expedited basis, each determination a copy of which is received from the Governor and, within 15 days after the date of such receipt, furnish Congress a report on the accuracy of the determination.

(J) The telephone bank shall not sell or otherwise dispose of any loan made under this section, except as provided in this paragraph.

(4) The Governor of the telephone bank may make a loan under this section only to an applicant for the loan who meets the following requirements:

(A) The average number of subscribers per mile of line in the service area of the applicant is not more than 15, or the applicant is capable of producing net income or margins before interest of not less than 100 percent (but not more than 500 percent) of the interest requirements on all of the outstanding and proposed loans of the applicant.

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(B) The Administrator has approved, under section 305(d)(3), a telecommunications modernization plan for the State in which the applicant is located and, if the plan was developed by telephone borrowers under title III, the applicant is a participant in the plan.

(5) No loan shall be made in any State which now has or may hereafter have a State regulatory body having authority to regulate telephone service and to require certificates of convenience and necessity to the applicant unless such certificate from such agency is first obtained. In a State in which there is no such agency or regulatory body legally authorized to issue such certificates to the applicant, no loan shall be made under this section unless the Governor of the telephone bank shall determine (and set forth his reasons therefor in writing) that no duplication of lines, facilities, or systems, providing reasonably adequate services will result therefrom.

(6) As used in this section, the term telephone service shall have the meaning prescribed for this term in section 203(a) of this Act, and the term telephone lines, facilities, or systems shall mean lines, facilities or systems used in the rendition of such telephone service.

(7) No borrower of funds under section 408 of this Act shall, without approval of the Governor of the telephone bank under rules established by the Telephone Bank Board, sell or dispose of its property, rights, or franchises, acquired under the provisions of this Act, until any loan obtained from the telephone bank, including all interest and charges, shall have been repaid.

(8) (A) A borrower with a loan from the Rural Telephone Bank may prepay such loan (or any part thereof) by paying the face amount thereof without being required to pay the prepayment penalty set forth in the note covering such loan, except for any prepayment penalty provided for in a loan agreement entered into before the date of enactment of the Rural Electrification Loan Restructuring Act of 1993.

(B) If a borrower prepays part or all of a loan made under this section, then notwithstanding section 407(b), the Governor of the telephone bank shall--

(i) use the full amount of the prepayment to repay obligations of the telephone bank issued pursuant to section 407(b) before October 1, 1991, to the extent any such obligations are outstanding; and

(ii) in repaying the obligations, first repay the advances bearing the greatest rate of interest.

(9) On request of any applicant for a loan under this section during any fiscal year, the Governor of the telephone bank shall--

(A) consider the application to be for a loan under this section and a loan under section 305(d)(2); and

(B) if the applicant is eligible for a loan, make a loan to the applicant under this section in an amount equal to the amount that bears the same ratio to the total amount of loans for which the applicant is eligible under this section and under section 305(d)(2), as the amount made available for loans under this section for the fiscal year bears to the total amount made available for loans under this section and under section 305(d)(2) for the fiscal year.

(10) On request of any applicant who is eligible for a loan under this section for which funds are not available, the applicant shall be considered to have applied for a loan under section 305(d)(2).

(c) The Governor of the telephone bank is authorized under rules established by the Telephone Bank Board to adjust, on an amortized basis, the schedule of payments of interest or principal of loans made under this section upon his determination that with such readjustment there is reasonable assurance of repayment: Provided, however, That no adjustment shall extend the period of such loans beyond fifty years.

(d) (1) Except as provided in paragraph (2), the term of any loan made under this title shall be determined by the borrower at the time the application for the loan is submitted.

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(2) The term of any loan made under this title shall not exceed the maximum term for which a loan may be made under section 4.

(e) Loans and advances made under this section on or after November 5, 1990, shall bear interest at a rate determined under this section, taking into account all assets and liabilities of the telephone bank. This subsection shall not apply to loans obligated before the date of enactment of this subsection. Funds are not authorized to be appropriated to carry out this subsection until the funds are appropriated in advance to carry out this subsection.

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 35; May 11, 1973, Public Law 93-32, §§8, 9, 87 Stat. 70; Dec. 22, 1987, Public Law 100-203, Title I, Subtitle D, ch. 2, §§1411(b)(1)(c), 1412, 101 Stat. 1330-22; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 4, §§2365-2367, 104 Stat. 4044; Nov. 1, 1993, Public Law 103-129, §2, 107 Stat. 1361; 7 U.S.C. 948.]

SEC. 409. TELEPHONE BANK RECEIPTS; AVAILABILITY FOR OBLIGATIONS AND EXPENDITURES.—Any receipts from the activities of the telephone bank shall be available for all obligations and expenditures of the telephone bank.

[May 7, 1971 Public Law 92-12, §2, 85 Stat. 36; 7 U.S.C. 949.]

SEC. 410. CONVERSION OF OWNERSHIP, CONTROL AND OPERATION OF TELEPHONE BANK.—(a) Whenever fifty-one per centum of the maximum amount of class A stock issued to the United States and outstanding at any time after September 30, 1985, has been fully redeemed and retired pursuant to section 406(c) of this title—

(1) the powers and authority of the Governor of the telephone bank granted to the Administrator of the Rural Electrification Administration by this title IV shall vest in the Telephone Bank Board, and may be exercised and performed through the Governor of the telephone bank, to be selected by the Telephone Bank Board, and through such other employees as the Telephone Bank Board shall designate;

(2) the five members of the Telephone Bank Board designated by the President pursuant to section 405(b) (1) (A) shall cease to be members, and the number of Board members shall be accordingly reduced to eight unless other provision is thereafter made in the bylaws of the telephone bank;

(3) the telephone bank shall cease to be an agency of the United States, but shall continue in existence in perpetuity as an instrumentality of the United States and as a banking corporation with all of the powers and limitations conferred or imposed by this title IV except such as shall have lapsed pursuant to the provisions of this title.

(b) When all class A stock has been fully redeemed and retired, loans made by the telephone bank shall not continue to be subject to the restrictions prescribed in the provisos to section 408(a)(2).

(c) Congress reserves the right to review the continued operations of the telephone bank after all class A stock has been fully redeemed and retired.

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 36; April 21, 1976, Public Law 94-273, §2(2), 90 Stat. 375; Nov. 28 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 4, §2363, 104 Stat. 4042; 7 U.S.C. 950.]

SEC. 411. LIQUIDATION OR DISSOLUTION OF THE TELEPHONE BANK.—In the case of liquidation or dissolution of the telephone bank, after the payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par; fourth, of all class C stock at par; then any surpluses and contingency reserves existing on the effective date of liquidation or dissolution of the telephone bank shall be paid to the holders of class A and class B stock issued and outstanding before the effective date of such liquidation or dissolution, pro rata.

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[May 7, 1971, Public Law 92-12, §2, 85 Stat. 37; 7 U.S.C. 950a.]

SEC. 412. BORROWER NET WORTH.-Except as provided in subsection (b)(2) of section 408, notwithstanding any other provision of law, a loan shall not be made under section 201 of this Act to any borrower which during the immediately preceding year had a net worth in excess of 20 per centum of its assets unless the Administrator finds that the borrower cannot obtain such a loan from the telephone bank or from other reliable sources at reasonable rates of interest and terms and conditions.

[May 7, 1971, Public Law 92-12, §2, 85 Stat. 37; 7 U.S.C. 950b.]

TITLE V-RURAL ECONOMIC DEVELOPMENT

SEC. 501. ADDITIONAL POWERS AND DUTIES OF REA ADMINISTRATOR.-

The Administrator shall-

(1) provide advice and guidance to electric borrowers under this Act concerning the effective and prudent use by such borrowers of the investment authority under section 312 to promote rural development;

(2) provide technical advice, troubleshooting, and guidance, concerning the operation of programs or systems that receive assistance under this Act;

(3) establish and administer various pilot projects through electric and telephone borrowers that the Administrator determines are useful or necessary, and recommend specific rural development projects for rural areas;

(4) act as an information clearinghouse and conduit to provide information to electric and telephone borrowers under this Act concerning useful and effective rural development efforts that such borrowers may wish to apply in their areas of operation and concerning State, regional, or local plans for long-term rural economic development;

(5) provide information to electric and telephone borrowers under this Act concerning the eligibility of such borrowers to apply for financial assistance, loans, or grants from other Federal agencies and non-Federal sources to enable such borrowers to expand their rural development efforts;

(6) promote local partnerships and other coordination between borrowers under this Act and community organizations, States, counties, or other entities, to improve rural development; and

(7) administer a Rural Business Incubator Fund (as established under section 502) that shall provide technical assistance, advice, loans, or capital to business incubator programs or for the creation or operation of small business incubators in rural areas.

[Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle E, §2345, 104 Stat. 4029; Dec. 13, 1991, Public Law 102-237, Title VII, §703, 105 Stat. 1881; 7 U.S.C. 950aa.]

SEC. 502. RURAL BUSINESS INCUBATOR FUND.-

(a) ESTABLISHMENT AND USE.-

(1) ESTABLISHMENT.-There is established in the Treasury of the United States a revolving fund to be known as the Rural Business Incubator Fund (in this title referred to as the "Incubator Fund") to be administered by the Administrator.

(2) USE.-The Incubator Fund shall be used to make grants and reduced interest loans to electric and telephone borrowers under this Act or to other nonprofit entities that meet the requirements of this section, to promote business incubator programs or for the creation or operation of business incubators in rural areas, and the interest rate on such loans shall not exceed 5 percent.

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(3) **BUSINESS INCUBATOR.**-Any business incubator that receives assistance under this title shall be a facility in which small businesses can share premises, support staff, computer, software, hardware, telecommunications terminal equipment, machinery, janitorial services, utilities, or other overhead expenses, and where such businesses can receive technical assistance, financial advice, business planning services, or other support. Business incubator programs that provide assistance of the type described in this paragraph shall be eligible for assistance under this title even if such programs do not involve the sharing of premises.

(b) APPLICATION FOR ASSISTANCE.-

(1) **ELIGIBILITY TO SUBMIT.**-Borrowers under this Act that operate business incubators or that desire to operate such incubators or business incubator programs, and that meet the requirements established by the Administrator for obtaining grants or reduced interest loans under this section, may submit applications for such grants or loans at such time, in such form, and containing such information as the Administrator shall require. Nonprofit entities that are not borrowers under title III shall be considered eligible borrowers for the purpose of this section if such entities are located in a State in which not more than one electric borrower is headquartered in such State.

(2) **REQUIREMENTS.**-Applications submitted under paragraph (1) shall, at a minimum-

(A) contain an assurance that any incubator established or operated pursuant to this section will be operated on a not-for-profit basis; and

(B) contain an assurance that the policy of such incubator is to encourage and assist businesses in graduating from the incubator and becoming viable business entities in the community and to inform participating businesses of this policy.

(3) **REVIEW.**-In reviewing applications for assistance, the Administrator shall consider-

(A) how effectively the incubator project will assist in the formation, growth, or improved efficiency of small businesses that will help diversity and develop the local economy; and

(B) the amount of local support likely to exist for the incubator and the businesses to be assisted by such incubator, taking into account local contributions of business, financial, technical, technological, or managerial expertise, and contributions of equipment or materials, local financial assistance, and other factors as determined appropriate by the Administrator.

(c) FUNDING OF LOCAL INCUBATORS.-

(1) BY BORROWER ESTABLISHING INCUBATOR.-

(A) **IN GENERAL.**-A borrower that establishes or assists a business incubator under this section shall purchase Capital Term Certificates issued by the Incubator Fund in amounts equal to 10 percent of the amount of the grant, or 5 percent of the amount of the reduced interest loan, provided by the Administrator under this section.

(B) **REDEMPTION OF CERTIFICATES.**-Each calendar year for the 10-year period beginning on the date that a grant or reduced interest loan is provided under this section, the Administrator shall redeem an amount equal to 10 percent of the Capital Term Certificates purchased by the borrower under subparagraph (A), without any payment of interest.

(2) **BY THE SECRETARY OF THE TREASURY.**-The Secretary of the Treasury shall, subject to the limitations contained in annual appropriations Acts, provide funds for the capitalization of the Incubator Fund, and there are authorized to be appropriated for such capitalization not to exceed \$10,000,000 annually until the total of such capitalization equals \$60,000,000. Such amounts shall remain available until expended by the Incubator Fund for the purposes of this section.

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(d) REPAYMENTS TO INCUBATION FUND.-All payments made on loans under this section, and all amounts provided under subsection (c), shall be placed in the Incubator Fund established by subsection (a) and shall be available to carry out the purposes of this section.

(e) FULL USE.-The Administrator shall undertake all reasonable efforts to make full use, during each fiscal year, of any funds contained in the Incubator Fund established under subsection (a), consistent with the requirement that the Incubator Fund redeem Capital Term Certificates as provided by subsection (c). During each fiscal year, 10 percent of the amount contained in the Incubator Fund shall be made available to nonprofit entities described in subsection (b) that are not borrowers under title III, except that if qualified applications from such entities are not received in an amount during any fiscal year, the Administrator shall make the remainder of such amount available to other eligible borrowers during such fiscal year.

[Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle E, §2345, 104 Stat. 4030; Dec. 13, 1991, Public Law 102-237; Title VII, §703, 105 Stat. 1881; 7 U.S.C. 950aa-1.]

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**DEFERRED AMENDMENTS TO THE GOVERNMENT
CORPORATION CONTROL ACT**

Sections 4 and 5 of the Act of May 7, 1971 (Public Law 92-12; 85 Stat. 37) establishing the Rural Telephone Bank, included the following deferred amendments to the Government Corporation Control Act:

SEC. 4. Section 201 of the Government Corporation Control Act, as amended (31 U.S.C. 856), is amended, effective when the ownership, control, and operation of the telephone bank is converted as provided in section 410(a) of the Rural Electrification Act of 1936, as amended, by striking "and" immediately before "(5)" and by inserting, "and (6) the Rural Telephone Bank" immediately before the period at the end.

SEC. 5. The second sentence of subsection (d) of section 303 of the Government Corporation Control Act, as amended (31 U.S.C. 868), is amended, effective when the ownership, control, and operation of the telephone bank is converted as provided in section 410(a) of the Rural Electrification Act of 1936, as amended, by inserting "the Rural Telephone Bank," immediately following the words "shall not be applicable to."

STATEMENTS OF CONGRESSIONAL POLICY

RURAL TELECOMMUNICATIONS IMPROVEMENTS ACT OF 1990

The Rural Telecommunications Improvements Act of 1990 which amended the Rural Electrification Act of 1936 contains the following statements of Congressional findings and policy:

(a) FINDINGS.-The Congress finds that-

(1) making modern telecommunications technology and services available in rural areas in the United States promotes economic development and improves the quality of life in rural areas; and

(2) the efficient operation of the Rural Telephone Bank and the Rural Electrification Administration telephone loan programs is essential to the continued development of the telecommunications infrastructure in rural areas in the United States.

(b) STATEMENT OF POLICY.-It is the policy of the Congress that the Rural Telephone Bank and the Rural Electrification Administration make loans that facilitate the development and enhancement of the rural telecommunications infrastructure in order to make modern telecommunications technology and services available at reasonable rates to the greatest practicable number of people in rural areas in the United States.

[Nov. 28, 1990, Public Law 101-624, Subtitle F, §2351, 104 Stat. 4038; 7 U.S.C. 901 note.]

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RURAL TELEPHONE LOANS

The rural telephone legislation enacting clause contains the following statement of Congressional policy:

... it is hereby declared to be the policy of the Congress that adequate telephone service be made generally available in rural areas through the improvement and expansion of existing telephone facilities and the construction and operation of such additional facilities as are required to assure the availability of adequate telephone service to the widest practicable number of rural users of such service. In order to effectuate this policy, the Rural Electrification Act of 1936 is amended as hereinafter provided.
[Oct. 28, 1949, ch. 776, §1, 63 Stat. 948; 7 U.S.C. 921.]

RURAL TELEPHONE BANK

The telephone bank legislation enacting clauses contain the following statement of Congressional policy:

... it is hereby declared to be the policy of the Congress that the growing capital needs of the rural telephone systems require the establishment of a rural telephone bank which will furnish assured and viable sources of supplementary financing with the objective that said bank will become an entirely privately owned, operated, and financed corporation. The Congress further finds that many rural telephone systems require financing under the terms and conditions provided in title II of the Rural Electrification Act of 1936, as amended. In order to effectuate this policy, the Rural Electrification Act of 1936, as amended [7 U.S.C. 921-924], is amended as hereinafter provided.
[May 7, 1971, Public Law 92-12, 85 Stat. 29; 7 U.S.C. 921a.]

... it is hereby declared to be the policy of the Congress that the Rural Telephone Bank should have the capability of obtaining adequate funds for its supplementary financing program at the lowest possible costs. In order to effectuate this policy, it will be necessary to expand the market for debentures to be issued by the Telephone Bank. The Rural Electrification Act of 1936, as amended [7 U.S.C. 901-950(b)], is therefore further amended as hereinafter provided.
[June 30, 1972, Public Law 92-324, §1, 86 Stat. 390; 7 U.S.C. 921b.]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

The rural electrification and telephone revolving fund legislation contained the following statements of Congressional policy:

... it is hereby declared to be the policy of the Congress that adequate funds should be made available to rural electric and telephone systems through direct, insured and guaranteed loans

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at interest rates which will allow them to achieve the objectives of the Rural Electrification Act of 1936, as amended; and that such rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the Act's objectives.

[May 11, 1973, Public Law 93-32, §1, 87 Stat. 65; 7 U.S.C. 930.]

Note: The Federal Credit Reform Act of 1990 superseded revolving fund legislative provisions which had been in effect since 1973. [Nov. 5, 1990, Public Law 101-508, Title XIII, Subtitle V, §507, 104 Stat. 1388-614; 2 U.S.C. 661f]

USE OF FUNDS OUTSIDE THE UNITED STATES OR ITS TERRITORIES

The legislation amending the Rural Electrification Act of 1973 mandates that "[no funds provided under the Rural Electrification Act of 1936, as amended, shall be used outside the United States or any of its territories."

[May 11, 1973, Public Law 93-32, §10, 87 Stat. 71; 7 U.S.C. 906a.]

PROVISIONS OF THE DISASTER RELIEF ACT OF 1970 AFFECTING REA

Title II, section 236(a) of the Disaster Relief Act 1970 (December 31, 1970, Public Law 91-606, Title II, §236(a), 84 Stat. 1754; 7 U.S.C. 912a) expanded the loan extension authority provided in section 12 of the Rural Electrification Act as follows:

In addition to the loan extension authority provided in section 12 of the Rural Electrification Act, the Secretary of Agriculture is authorized to adjust and readjust the schedules for payment of principal and interest on loans to borrowers under programs administered by the Rural Electrification Administration, and to extend the maturity date of any such loan to a date not beyond forty years from the date of such loan where he determines such action is necessary because of the impairment of the economic feasibility of the system, or the loss, destruction, or damage of the property of such borrowers as a result of a major disaster.

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"BUY AMERICAN" PROVISION

Rural Electrification Act of 1938 (June 21, 1938, ch. 554, Title IV §401, 52 Stat. 818) provided in part as follows:

In making loans pursuant to this title and pursuant to the Rural Electrification Act of 1936, the Administrator of the Rural Electrification Administration shall require that, to the extent practicable and the cost of which is not unreasonable, the borrower agree to use in connection with the expenditure of such funds only such unmanufactured articles, materials, and supplies, as have been mined or produced in the United States, Mexico, or Canada, and only such manufactured articles, materials, and supplies as have been manufactured in the United States, Mexico, or Canada substantially all from articles, materials or supplied mined, produced, or manufactured, as the case may be, in the United States, Mexico, or Canada.

(As amended by the North American Free Trade Agreement Implementation Act, December 8, 1993, Public Law 103-182, Title III, Subtitle G, §381, 107 Stat. 2129; 7 U.S.C. 903 note.)

DISTANCE LEARNING AND MEDICAL LINK PROGRAMS

Subtitle D of the Rural Economic Development Act of 1990 provided for distance learning and medical link programs through the Administrator of the Rural Electrification Administration. The subtitle, as amended, reads as follows:

SEC. 2331. PURPOSE.

The purposes of this chapter are to provide incentives for local telephone exchange carriers, rural community facilities and rural residents to improve the quality of phone service, to provide access to advanced telecommunications services and computer networks, and to improve rural opportunities.

SEC. 2332. GOAL.

It is a goal of the Federal government to make affordable advanced telecommunications available to rural residents, including services such as reliable facsimile document and data transmission, multifrequency tone signaling services, 911 emergency service with automatic number identification, interactive audio and visual transmissions, voicemail services designed to record, store, and retrieve voice messages, and other advanced telecommunications services.

SEC. 2333. DEFINITIONS.

As used in this chapter:

(1) **ADMINISTRATOR.**-The term "Administrator" means the Administrator of the Rural Electrification Administration.

(2) **COMMUNICATION SATELLITE GROUND STATION COMPLEX.**-The term "communication satellite ground station complex" includes transmitters, receivers, and communications antennas at the Earth station site together with the interconnecting terrestrial transmission facilities (cables, line, or microwave facilities) and modulating and demodulating equipment necessary for processing traffic received from the terrestrial distribution system prior to transmission via satellite and the traffic received from the satellite prior to transfer to terrestrial distribution systems.

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(3) **COMPREHENSIVE RURAL TELECOMMUNICATIONS PLAN.**-The term "comprehensive rural telecommunications plan" means a plan submitted by an applicant for a grant under this chapter. Each such plan shall include-

(A) a detailed explanation of the proposed rural telecommunications system, how such system is to be funded, and a description of the intended uses for grants received from the Administrator under this chapter;

(B) an explanation of the manner in which such plan complies with any requirements imposed by the Administrator under this chapter or otherwise imposed under section 2334;

(C) a listing of the proposed purchases or leases of telecommunications terminal equipment, telecommunications transmission facilities, data terminal equipment, interactive video equipment, computer hardware and software systems, and components that process data for transmission via telecommunications, computer network components, communication satellite ground station equipment, or any other elements of the telecommunications system designed to further the purposes of this chapter, that the applicant intends to build or fund using the grant funds;

(D) an explanation of the special financial or other needs of the affected rural communities and of the applicants for such grant assistance;

(E) an analysis of the relative costs and benefits of proposals for leasing or purchasing of facilities, equipment, components, hardware and software, or other items; and

(F) a description of the consultations with the appropriate local telephone exchange carrier or carriers and with a wide variety of additional telecommunications service providers (including other interexchange carriers, cable television operators, enhanced service providers, providers of satellite services and telecommunications equipment manufacturers and distributors), and the anticipated role of such providers in the proposed telecommunications system.

(4) **COMPUTER NETWORKS.**-The term "computer networks" refers to computer hardware and software, terminals, signal conversion equipment including both modulators and demodulators, or related devices, used to communicate with other computers to process and exchange data through a telecommunication network in which signals are generated, modified, or prepared for transmission, or received, via telecommunications terminal equipment and telecommunications transmission facilities.

(5) **DATA TERMINAL EQUIPMENT.**-The term "data terminal equipment" refers to equipment that converts user information into data signals for transmission, or reconverts the received data signals into user information, and is normally found on the terminal of a circuit and on the premises of the end user.

(6) **END USER.**-The term "end user" means rural community facilities or persons associated with those facilities who participate in the programs established under this chapter.

(7) **FIBER-OPTIC CABLE.**-The term "fiber-optic cable" means a bundle of optical transmission elements or waveguides usually consisting of a fiber core and fiber cladding that can guide a lightwave and that are incorporated into an assembly of materials that provide tensile strength and external protection.

(8) **INTERACTIVE VIDEO EQUIPMENT.**-The term "interactive video equipment" refers to equipment used to produce and prepare for transmission audio and visual signals from at least two distant locations such that individuals at such locations can verbally and visually communicate with each other, and such equipment includes monitors, other display devices, cameras or other recording devices, audio pickup devices, and other related equipment.

(9) **SECRETARY.**-The term "Secretary" means the Secretary of Agriculture.

(10) **TELECOMMUNICATIONS TRANSMISSION FACILITIES.**-The term "telecommunications transmission facilities" refers to those facilities that transmit, receive, or carry data between the telecommunications terminal equipment at each end of a

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telecommunications circuit or path. Such facilities include microwave antennae, relay stations and towers, other telecommunications antennae, fiber-optic cables and repeaters, coaxial cables, communication satellite ground station complexes, copper cable electronic equipment associated with telecommunications transmissions, and similar items as defined by the Administrator.

(11) TELECOMMUNICATIONS TERMINAL EQUIPMENT.-The term "telecommunications terminal equipment" refers to the assembly of telecommunications equipment at the end of a circuit, normally located on the premises of the end user, that interfaces with telecommunications transmission facilities, and that is used to modify, convert, encode, or otherwise prepare signals to be transmitted via such telecommunications facilities, or that is used to modify, reconvert or carry signals received from such facilities, the purpose of which is to accomplish the goal for which the circuit was established.

SEC. 2334. PROVISIONS RELEVANT TO TELECOMMUNICATIONS PROGRAMS.

(a) ADMINISTRATION.-The Administrator shall be responsible for the administration of this chapter.

(b) RULEMAKING.-Not later than 160 days after the date of enactment of this Act, the Administrator shall promulgate final regulations, under the notice and comment rulemaking requirements described in section 553 of title 5, United States Code, that establish the telecommunications programs authorized in this chapter.

(c) PRIORITY.-The Administrator shall establish procedures to target the benefits of this chapter to the rural areas and grant applicants that demonstrate the need for such assistance, taking into consideration the relative needs of all applicants, the needs of the affected rural communities, and the financial ability of the applicants to otherwise secure or create telecommunications systems.

(d) WAIVERS.-If the Administrator determines that a compelling need is present, the Administrator may modify any of the definitions in section 2333.

(e) EXPEDITING COORDINATED TELEPHONE LOANS.-The Administrator shall establish and implement procedures to ensure that expedited consideration and determination is given to applications for loans and advances of funds submitted by local exchange carriers under this chapter-

(1) to enable such exchange carriers to provide advanced telecommunications services in rural areas; and

(2) that contain elements of any telecommunications project approved by the Administrator under this chapter that will be completed by such local telephone exchange carriers but that is not covered by any grant made under this chapter.

(f) GRANT APPROVAL PROCESS.-

(1) MODIFICATIONS.-The Administrator may request modifications or changes in any proposal described in a grant application submitted under this chapter.

(2) LEVELS OF FUNDING.-

(A) IN GENERAL.-The Administrator may offer to fund grant applications under this chapter at any levels that the Administrator considers appropriate but not exceeding any percentage levels described in this chapter.

(B) CONSIDERATIONS.-After taking into consideration the nationwide demands for grant assistance and the costs and benefits of any proposed purchases or leases of telecommunications transmission facilities, telecommunications terminal equipment, computer network components, and other equipment or facilities, the Administrator shall make grants based on-

(i) the worthiness of the application;

(ii) the financial needs of the applicant;

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(iii) the need of the affected rural communities for the proposed projects;
and

(iv) other factors determined appropriate by the Administrator.

(g) **JOINT USE OF TELECOMMUNICATIONS TRANSMISSIONS FACILITIES.**-In issuing regulations implementing this chapter and in requesting changes in, or approving applications for grants, the Administrator shall give a priority, to the extent reasonable and appropriate, to provide funding for such facilities that can be jointly shared by projects established under this chapter.

(h) **EXPEDITED LOANS FOR TELEPHONE TRANSMISSION FACILITIES.**-

(1) **IN GENERAL.**-Grants to cover the costs of installing telecommunication transmission facilities shall not be provided to approved end users if the local telephone exchange carrier providing telephone service, as defined in section 203(a) of the Rural Electrification Act of 1936 (7 U.S.C. 924(a)), will install such facilities through the use of expedited telephone loans as described in subsection (e) under the conditions and deadlines described in this section or through other financing procedures.

(2) **NOTIFICATION OF LOCAL EXCHANGE CARRIER.**-Each applicant for a grant for a rural telecommunications program established under this chapter shall notify the appropriate local telephone exchange carrier regarding the application filed with the Administrator for such grant and shall attempt to work with such carrier in developing the rural telecommunications project. The Administrator shall published notice of applications received for grants under this chapter for rural telecommunications programs and shall make such applications available for inspection by any provider described in section 2333(3)(F).

(3) **DEADLINE IMPOSED ON THE ADMINISTRATOR.**-Not later than 45 days after the receipt of a completed application for an expedited telephone loan, the Administrator shall respond to the application. The Administrator shall notify the applicant in writing of its decision regarding each such expedited loan application.

SEC. 2335. RURAL COMMUNITY ACCESS TO ADVANCED TELECOMMUNICATIONS.

(a) **PURPOSE.**-

(1) **IN GENERAL.**-It is the purpose of the program established under this chapter to encourage and improve the use of telecommunications, computer networks, and related advanced technologies, by persons associated with end users, including students and teachers, medical professionals, small businesses, and other residents living in rural areas associated with rural community facilities in rural areas.

(2) **GRANTS.**-Grants shall be made under this chapter to end users to fund up to 100 percent of each comprehensive rural telecommunications plan as approved by the Administrator.

(b) **GRANTS.**-

(1) **GENERAL AUTHORIZATION.**-The Administrator may make grants to accomplish the purposes of the program established under this chapter in amounts that shall not exceed the levels set forth in paragraph (3).

(2) **DISBURSEMENT.**-In order to facilitate appropriate planning for, and continuity of, the program established under this chapter, the Administrator may obligate funds appropriated during a particular year for disbursement in a subsequent year or years, and the total of funds so appropriated and obligated during a year may exceed the limitations described in paragraph (1).

(3) **LIMITATIONS ON AUTHORIZATION OF APPROPRIATIONS.**-To carry out this chapter, there are authorized to be appropriated \$25,000,000 for fiscal year 1991, \$50,000,000 for each of fiscal years 1992 and 1993, and \$60,000,000 for each of the fiscal

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years 1994 and 1995. Amounts appropriated under this paragraph shall remain available until expended.

(4) **USE OF FUNDS.**—Grants under this chapter shall be made available to end users to be used for facilities, equipment, activities, and other uses as described in the approved rural telecommunications plan to achieve the purpose of this chapter, including—

(A) the development and acquisition of instructional programming;

(B) the development and acquisition, through lease or purchase, of computer hardware and software, audio and visual equipment, computer network components, telecommunications terminal equipment, telecommunications transmission facilities, data terminal equipment, or interactive video equipment, and other facilities that would further the purposes of the programs authorized by this chapter;

(C) providing technical assistance and instruction for the development or use of such programming, equipment, or facilities; or

(D) other uses that are consistent with achieving the purposes of this chapter as approved by the Administrator.

(5) **LOCAL EXCHANGE CARRIERS.**—Under the conditions described in section 2334(h), expedited loans may also be made, to carry out any project authorized in this chapter, to local exchange carriers providing telephone service (as defined in section 2333(a) of the Rural Electrification Act of 1936 (7 U.S.C. 924(a))), to cover the costs of telecommunications transmission facilities.

(6) **INFORMATIONAL EFFORTS.**—The Administrator shall establish and implement procedures to carry out informational efforts to advise potential end users located in rural areas of each State about the program authorized by this chapter.

(7) **LIMITS ON GRANTS.**—Grants awarded under this chapter for an end user shall not be used for the salaries or expenses of an end user.

(8) **USE OF APPROPRIATED FUNDS.**—

(A) **IN GENERAL.**—Subject to subparagraph (B), the Administrator shall make available--

(i) 50 percent of the funds made available pursuant to paragraph (3) for grants for end users that are consortia participating in the special program established under section 2335A; and

(ii) 50 percent of the funds made available pursuant to paragraph (3) to provide funds for the programs, and end users participating in the programs, authorized by sections 2331 through 2335.

(B) **RELEASE OF FUNDS.**—Not earlier than April 1 and not later than May 1 of each year, the Administrator shall make such funds described in subparagraph (A) as remain unobligated, available for any purpose described in subparagraph (A).

(c) **REGULATIONS.**—Not later than 160 days after the date of enactment of this Act, the Administrator shall, in addition to promulgating the regulations described in section 2334(b), establish a priority system for awarding grants to end users located in rural areas that are most in need of enhanced communications to carry out the purposes of this chapter.

SEC. 2335A. SPECIAL HEALTH CARE AND DISTANCE LEARNING PROGRAM FOR QUALIFIED SERVICE AREAS.

(a) **DEVELOPMENT OF CONSORTIA.**—The Administrator shall encourage the development of consortia to provide health care services or educational services through telecommunications in rural areas of a qualified local exchange carrier service area. Each consortium shall be composed of--

(1) a tertiary care facility, rural referral center, medical teaching institution, or educational institution accredited by the State;

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(2) any number of institutions that provide health care services or educational services; and

(3) not less than [sic] three rural hospitals, clinics, community health centers, migrant health centers, local health departments, or similar facilities, or not less than three educational institutions accredited by the State.

(b) SPECIAL PROGRAM FOR QUALIFIED LOCAL EXCHANGE CARRIER SERVICE AREAS.--

(1) REGULATIONS AND SPECIAL PROGRAM.--Through regulations issued not later than 190 days after the date of enactment of this section, the Administrator shall establish a program under which qualified consortia described in subsection (a) located within qualified local exchange carrier service areas may apply to the Administrator for grants to support the costs of activities involved in the sending and receiving of information that will improve the delivery of health care services or educational services through telecommunications in rural areas.

(2) SELECTION OF GRANTEES.--The Administrator shall--

(A) establish application procedures;

(B) review the applications submitted under this subsection in a timely manner;

and

(C) make grants in accordance with this subsection and with regulations issued by the Administrator.

(3) PRIORITIES.--

(A) IN GENERAL.--Priority for grants under this subsection shall be accorded applicants whose applications and plans demonstrate--

(i) the greatest likelihood of successfully and efficiently carrying out the activities described in the application and the plan of the applicant;

(ii) the greatest likelihood of improving health care services or educational services in the rural areas;

(iii) coordination between local exchange carriers to carry out activities as described in the application; and

(iv) unconditional financial support from each affected local community.

(B) GEOGRAPHIC DIVERSITY.--In awarding grants, the Administrator shall seek to achieve geographic diversity among the grantees.

(4) MAXIMUM AMOUNT OF GRANT.--The amount of each grant awarded under this subsection shall not exceed \$1,500,000.

(5) DISTRIBUTION OF GRANTS.--Grants to a qualified consortium under this subsection shall be disbursed over a period of not more than 3 years.

(6) USE OF FUNDS.--

(A) IN GENERAL.--Grants under this subsection may be used to support the costs of activities involving the sending and receiving of information to improve health care services or educational services in rural areas, including--

(i) in the case of grants to improve health care services--

(I) consultations between health care providers;

(II) transmitting and analyzing x rays, lab slides, and other images;

(III) developing and evaluating automated claims processing, and transmitting automated patient records; and

(IV) developing innovative health professions education programs;

(ii) in the case of grants to improve educational services--

(I) developing innovative education programs and expanding curriculum offerings;

(II) providing continuing education to all members of the community;

(III) providing means for libraries of educational institutions or public libraries to share resources;

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- (IV) providing the public with access to State and national data bases;
- (V) conducting town meetings; and
- (VI) covering meetings of agencies of State government; and
- (iii) in all cases--
 - (I) transmitting financial information; and
 - (II) such other related activities as the Administrator considers to be

consistent with the purposes of this section.

(7) **LIMITATION ON ACQUISITION OF INTERACTIVE TELECOMMUNICATIONS EQUIPMENT.**--Not more than 40 percent of the amount of any grant made under this subsection may be used to acquire interactive telecommunications end user equipment.

(8) **LIMITATION ON USE OF CONSULTANTS.**--Not more than 5 percent of the amount of any grant made under this subsection may be used to employ or contract with any consultant or similar person.

(9) **PROHIBITIONS.**--Grants made under this subsection may not be used, in whole or in part, to establish or operate a telecommunications network or to provide any telecommunications services for hire.

(c) **EXPEDITED TELEPHONE LOANS.**--Local exchange carriers located in a qualified local exchange carrier service area shall be eligible to apply for expedited loans under the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.). The Administrator shall respond to a completed application for such a loan no later than 45 days after receipt. The Administrator shall notify the applicant in writing of its decision regarding each such application.

(d) **DEFINITION.**--As used in this section, the term 'qualified local exchange carrier service area' means the service area of a local telephone exchange carrier in which the local exchange carrier has a plan approved by the Administrator for upgrading and modernizing the rural telecommunications infrastructure of the service area. The plan shall--

(1) provide for eliminating party line service within the local exchange carrier service area and for other improvements and modernization in rural telephone service;

(2) provide for the enhancement of the availability of educational opportunities or the availability of improved medical care through telecommunications;

(3) encourage and improve the use of telecommunications, computer networks, and related advanced technologies to provide educational and medical benefits to people in rural areas; and

(4) provide for the achievement of the goals described in subparagraphs (A) through (C) not later than 10 years after the approval of the plan.

[Nov. 28, 1990,, Public Law 101-624, Title XXIII, Subtitle D, 104 Stat. 4017; Oct. 28, 1992, Public Law 102-551, 106 Stat. 4098; 7 U.S.C. 950aaa et seq.]

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SELECTED LEGISLATIVE REFERENCES

INSURED LOAN PROGRAMS

Prior to the enactment on November 1, 1993, of the Rural Electrification Loan Restructuring Act of 1993, Sections 305 and 314 of the Rural Electrification Act read as follows:

SEC. 305. INSURED LOANS -(a) The Administrator is authorized to make insured loans under this title and at the interest rates hereinafter provided to the full extent of the assets available in the fund, subject only to limitations as to amounts authorized for loans and advances as may be from time to time imposed by the Congress of the United States for loans to be made in any one year, which amounts shall remain available until expended: Provided, That the Congress in the annual appropriation Act may also authorize the transfer of any excess cash in the fund for deposit into the Treasury as miscellaneous receipts: And provided further, That any such loans and advances shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

(b) Insured loans made under this title shall bear interest at 5 per centum per annum, except that the Administrator may make insured loans to electric or telephone borrowers at a lesser interest rate, but not less than 2 per centum per annum, if, in the Administrator's sole discretion, the Administrator finds that the borrower-

(1) has experienced extreme financial hardship; or

(2) cannot, in accordance with generally accepted management and accounting principles and without charging rates to its customers or subscribers so high as to create a substantial disparity between such rates and the rates charged for similar service in the same or nearby areas by other suppliers, provide service consistent with the objectives of this Act.

(c) Loans made under this section shall be insured by the Administrator when purchased by a lender. As used in this Act, an insured loan is one which is made, held, and serviced by the Administrator, and sold and insured by the Administrator hereunder; such loans shall be sold and insured by the Administrator without undue delay.

(d) The Administrator shall make a telephone loan under this title to an applicant therefor who is otherwise qualified to receive such a loan at the highest interest rate (but not less than the lowest interest rate, nor higher than the highest interest rate, specified in subsection (b)) at which the borrower would be capable of producing net income or margins before interest payments of at least 100 percent (but not more than 150 percent) of the interest requirements on all of the applicant's outstanding and proposed loans.

[May 11, 1973, Public Law 93-32, §2, 87 Stat. 68; Oct. 20, 1976, Public Law 94-570, §3, 90 Stat. 2701; Aug. 13, 1981, Public Law 97-35, Title I, §165(a), 95 Stat. 379; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle F, ch. 3, §2361, 104 Stat. 4042; 7 U.S.C. 935.]

SEC. 314 AUTHORIZATION LEVELS FOR RURAL ELECTRIC AND TELEPHONE LOANS. -

(a) IN GENERAL.-Subject to the other provisions of this section and notwithstanding any other provision of law, for each of fiscal years 1991 through 1995, insured loans may be made in accordance with this title from the Rural Electrification and Telephone Revolving Fund established under section 301 in amounts equal to the following levels:

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- (1) For fiscal year 1991, \$896,000,000.
- (2) For fiscal year 1992, \$932,000,000.
- (3) For fiscal year 1993, \$969,000,000.
- (4) For fiscal year 1994, \$1,008,000,000.
- (5) For fiscal year 1995, \$1,048,000,000.

(b) **REDUCTION.**-Notwithstanding any other provision of law, for each of fiscal years 1991 through 1995, the Administrator shall-

(1) reduce the amounts otherwise made available for insured loans made from the Rural Electrification and Telephone Revolving Fund by-

- (A) \$224,000,000 for fiscal year 1991;
- (B) \$234,000,000 for fiscal year 1992;
- (C) \$244,000,000 for fiscal year 1993;
- (D) \$256,000,000 for fiscal year 1994; and
- (E) \$267,000,000 for fiscal year 1995; and

(2) use the funds made available from such reductions in each fiscal year to guarantee loans under subsection (d).

(c) **MANDATORY LEVELS.**-Notwithstanding any other provision of law, the Administrator shall make insured loans at the levels authorized by this section for each of fiscal years 1991 through 1995 taking into account any reductions under subsection (b).

(d) **GUARANTEED LOANS-**

(1) **IN GENERAL.**-Except as otherwise provided in this subsection and subsection (e) and notwithstanding any other provision of law, in carrying out this Act, the Administrator shall guarantee loans made by legally organized lending agencies to the extent of the reduction in insured loans as provided in subsection (b).

(2) **AMOUNT OF GUARANTEE.**-The guarantee authorized under paragraph (1) shall be 90 percent of the principal of and interest on the loan and shall be made only upon the request of the borrower.

(3) **NO FEDERAL INSTRUMENTALITY.**-The Administrator may not provide any such guarantee for a loan made by the Federal Financing Bank, the Rural Telephone Bank, or any other lending agency that is an agency or instrumentality of the United States other than banks for cooperatives.

(4) **AUTHORITY.**-The Administrator is authorized to approve such guarantees subject to full use being made during each fiscal year of insured loan amounts made available during the fiscal year.

(5) **CONSTRUCTION.**-Nothing in this subsection shall be construed as modifying the authority provided in section 306.

(e) **IMPLEMENTATION.-**

(1) **IN GENERAL.**-The Administrator shall implement the reduction in insured loans provided by subsection (b) in a manner that will lessen its adverse effect.

(2) **ALLOCATION BETWEEN ELECTRIC AND TELEPHONE PROGRAMS.**-The reductions required by subsection (b) shall be allocated between the electric and telephone programs for each fiscal year in proportion to the amount of insured funds made available for each such program during the fiscal year in annual appropriations Acts.

(3) **ELECTRIC BORROWER'S OPTION.**-If the amount of an insured electric loan is reduced as a result of the requirements of subsection (b), the electric borrower may, at the option of such borrower, obtain capital to replace the amount of the reduction-

- (A) with the assistance of a loan guarantee (as provided by subsection (d));
- (B) from internally generated funds of the electric borrower;
- (C) from private credit sources with a lien accommodation provided by the

Administrator; or

- (D) from other private sources.

[Nov. 5, 1990, Public Law 101-508, Subtitle B, §1201, 104 Stat. 1388-7; 7 U.S.C. 940d.]

Every effort has been made to ensure the accuracy of this document. In case of discrepancies, the applicable public laws are the authorized source.

Current as of July 1, 1994

DIRECT OR INSURED LOAN PREPAYMENT

Prior to the enactment on August 10, 1993, of the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993), Section 306B of the Rural Electrification Act read as follows:

SEC. 306B. SALE OR PREPAYMENT OF DIRECT OR INSURED LOANS.- (a) A direct or insured loan made under this Act shall not be sold or prepaid at a value less than the face value of any outstanding principal balance on such loan, except when sold to or prepaid by the borrower at the lesser of the outstanding principal balance due on the loan or the loan's present value discounted from the face value at maturity at the rate set by the Administrator. The exception contained in the preceding sentence shall be effective for the period ending September 30, 1987.

(b) Notwithstanding subsection (a), a direct or insured loan may be prepaid by an electric borrower at the lesser of the outstanding principal balance due thereon or the present value thereof discounted from the face value at maturity at the rate set by the Administrator if the borrower is an electrical organization which resulted from a merger or consolidation between a borrower and an organization which, prior to October 1, 1987, prepaid its direct or insured loans pursuant to this section. Prepayments by a borrower hereunder shall be made not later than one year after the effective date of the merger, consolidation, or other transaction. The discount rate to be set by the Administrator for direct or insured loans prepayments hereunder shall be based on the current cost of funds to the Department of the Treasury for obligations of comparable maturity to those being prepaid. If a borrower prepays using tax exempt financing, the discount shall be adjusted to make the discount equivalent to fully taxable financing. The borrower shall certify in writing whether the financing will be tax exempt and shall comply with such other terms and conditions as the Administrator may establish which are reasonable and necessary to implement this provision. As used in this section, the term "direct loan" means a loan made under section 4.

[Oct. 21, 1986, Public Law 99-509, Title I, §1011(a), 100 Stat. 1875; Nov. 28, 1990, Public Law 101-624, Title XXIII, Subtitle H, §2387, 104 Stat. 4051; 7 U.S.C. 936b.]

Note: Sections 306C, 306D, 306E were enacted subsequent to OBRA 1993.

Every effort has been made to ensure the accuracy of this document. In case of discrepancies, the applicable public laws are the authorized source.

